You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial information included in "Appendix I — Accountants' Report" to this prospectus, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with IFRSs.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis that we made in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed in "Risk Factors" and "Forward-Looking Statements" in this prospectus.

OVERVIEW

We are the leading enterprise in the field of isotopes and irradiation technology applications in China. We are primarily engaged in the research, development, manufacturing and sale of diagnostic and therapeutic radiopharmaceuticals and radioactive source products for medical and industrial applications. We also provide irradiation service for sterilization purpose, EPC service for the design, manufacturing and installation of gamma ray irradiation facilities, as well as independent clinical laboratory services. According to Frost & Sullivan, in 2017, we were the largest manufacturer of imaging diagnostic and therapeutic radiopharmaceuticals, UBT kits and analyzers and radioactive source products, respectively, in terms of revenue in China. In 2017, we were two out of three qualified EPC service providers approved by the MEP to engage in the design, manufacturing and installation of irradiation facilities in China, according to Frost & Sullivan.

We have experienced stable business growth in recent years. In particular, our revenue increased from RMB2,152.1 million in 2015 to RMB2,363.1 million in 2016, and further to RMB2,672.0 million in 2017. In 2015, 2016 and 2017, our net profit was RMB410.4 million, RMB434.5 million and RMB475.6 million, respectively.

BASIS OF PRESENTATION

Our consolidated financial information has been prepared in accordance with IFRSs and applicable disclosure requirements of the Hong Kong Listing Rules. We prepared our consolidated financial information on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Our consolidated financial information incorporates the financial information of our Company and entities controlled by us. When necessary, we made adjustments to the financial statements of our subsidiaries to bring their accounting policies in line with our accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to intra-group transactions are eliminated in full on consolidation.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

We believe that the most significant factors that have affected, or are expected to affect, our results of operations and financial condition include, among others:

The Development of the PRC Isotope and Irradiation Industry

Our business expansion and revenue growth have been, and will continue to be, affected by the development of the isotope and irradiation industry in China.

The size of the PRC isotopes medical application market reached RMB4,382.0 million in 2017 and is projected to reach RMB10,634.1 million in 2022, representing a CAGR of 19.4% between 2017 and 2022, according to Frost & Sullivan. The market size of the PRC industrial radioactive sources reached RMB360.5 million in 2017 and is projected to reach RMB428.7 million in 2022, representing a CAGR of 3.5% between 2017 and 2022, according to Frost & Sullivan. The market size of the PRC design and installation of gamma ray irradiators is expected to continually grow from RMB29.9 million in 2017 to RMB32.0 million in 2022 with a CAGR of 1.3%, according to Frost & Sullivan. The market size of the irradiation service reached RMB1,093.5 million in 2017 and is projected to reach RMB1,418.5 million in 2022, representing a CAGR of 5.3% between 2017 and 2022, according to Frost & Sullivan. See "Industry Overview" for further details.

The robust growth of the PRC isotope and irradiation market is driven by a multitude of favorable fundamental factors. In 2016, total healthcare expenditures in China reached RMB4,634.5 billion and are expected to grow at a CAGR of 9.7% from 2016 to RMB7,371.0 billion in 2021, according to Frost & Sullivan. Along with the rapid growth of healthcare expenditures, the development of the isotope and irradiation industry in China is also driven by a number of important trends, including increasing disposable income, rising health awareness, aging population, increasing life expectancy and epidemiological change, increasing prevalence of chronic diseases, favorable government policy support, technological advances and growing application potential in extensive fields. Our success depends on our ability to accurately identify and anticipate these trends as well as to adapt our business to such changes in the market environment.

As a leading enterprise covering extensive application fields along the value chain in the PRC isotope and irradiation industry, we believe that we are well-positioned to benefit from the general market growth and have the competitive strengths, resources and expertise to take advantage of the evolving market dynamics. However, the continued growth of the PRC isotope and irradiation industry and our ability to benefit from market growth are subject to a number of risks and uncertainties. See "Risk Factors — Risks Relating to Our Business and Industry" for further details.

Regulations of Our Industry and Our Ability to Adapt to Evolving Regulatory Environment

The isotope and irradiation industry in China is subject to rigorous government regulation and supervision. The current regulatory framework addresses all key aspects of production and operation, including approval, licencing and certification requirements and procedures, periodic assessment and renewal processes, registration of new drugs, quality control, qualifications and environmental protection. Policies and regulations promulgated by the PRC government and other competent authorities may therefore significantly affect our operations, products and services. As such, our ability to adapt to an evolving regulatory environment will affect our results of operations. See "Regulatory Environment" for a summary of the laws and regulations relating to our business in China.

Our Ability to Enhance Our Sales and Marketing Capabilities

Our results of operations have been and will continue to be affected by our ability to further strengthen and expand our sales and marketing capabilities. As part of our overall growth strategy, we plan to continually enhance the coverage of our sales network and promote synergies among our production and distribution roles, which we believe could reinforce our leading market position domestically. For instance, given the relatively short half-life of the radioisotopes in technetium-99m labeled injections and fluorine-18-FDG injections, having a manufacturing facility located in the proximity of hospitals and other medical institution customers of these products could offer a key competitive advantage. In order to timely meet the increasing demand of the population centers in China, we intend to build a total of 26 manufacturing and distribution facilities to produce and sell technetium-99m labeled injections and fluorine-18-FDG injections by 2023 in China. We also plan to leverage our two planned new modern manufacturing and research and development bases of imaging diagnostic and therapeutic radiopharmaceuticals, namely Xianghe Base and Chengdu Base, and our two new production bases located in Shenzhen and Tongcheng, to enhance our ability to meet market demand, while strengthening our marketing efforts and exploring marketing channels to increase our market penetration.

Furthermore, we sell our products through a network of promoters and distributors, and our ability to increase revenue is directly affected by the scale of our sales network and the effectiveness of our sales and marketing activities. We devote our marketing resources to continuously increasing the breadth and depth of our sales network, which could directly impact our market coverage of hospitals and medical institutions to further increase our sales volume. As of December 31, 2017, through our sales network of pharmaceuticals and radioactive source products located strategically across 31 provinces, municipalities and autonomous regions, we sold our products to over 1,400 Class III hospitals, 4,500 Class II hospitals and 4,300 Class I hospitals in China. We actively participate in trade shows, symposia, conventions, seminars, and other notable events in China to promote and maintain our brand at the forefront of the industry and enhance recognition among leading hospitals and medical professionals. We intend to continue to strengthen our relationship with hospitals and medical institutions to further increase our direct sales and improve our profitability. The vast scale and geographic coverage of our sales network allow us to effectively provide high-quality supply chain services to our customers, which in turn enables us to enhance customer relationships and bargaining power. We have also launched diverse marketing and promotional activities for sales of our pharmaceuticals with a view to enhancing our brand awareness and recognition of our products. However, our ability to utilize our sales network is subject to a number of risks and uncertainties. See "Risk Factors — Risks Relating to Our Business and Industry — If we fail to maintain an effective distribution network for our certain products in pharmaceuticals segment or manage the activities of our distributors, our business could be materially and adversely affected."

Product Portfolio and Our Ability to Optimize Product and Service Mix

Our results of operations are affected by the product and service mix in our businesses. As of the Latest Practicable Date, we provided and marketed a diversified product portfolio comprising 54 radiopharmaceuticals for imaging diagnostic and therapeutic purposes, four registered UBT kits, ten registered UBT analyzers, 147 in vitro immunoassay diagnostic reagents and kits products, five medical radioactive source products and more than 70 industrial radioactive source products. Of these products, five radiopharmaceuticals for imaging diagnostic and therapeutic purposes and seven radioactive source products could only be produced by us in China as of the Latest Practicable Date.

The gross margin and market demand for each product we manufacture vary significantly as a result of our diversified product portfolio. We continuously evaluate and optimize our product portfolio to allocate resources towards products with promising market outlook and high profitability.

Our future results of operations will also depend on our ability to research, develop and commercialize new products, which typically command higher selling volumes and profit margins. Capitalizing on the strong demand for our radiopharmaceutical products in China, we plan to build two new modern radiopharmaceutical manufacturing and research and development bases in Xianghe, Hebei province, and Chengdu, Sichuan province, through HTA and CNGT to expand production capacity and extend distribution reach. As of December 31, 2017, we had one imaging diagnostic and therapeutic radiopharmaceutical under research pending approval for production, namely sodium iodine-131 capsule for therapeutic purpose, one imaging diagnostic and therapeutic radiopharmaceutical at stage of clinical trials, namely iodine-131-MIBG injection, three imaging diagnostic and therapeutic radiopharmaceuticals under research pending approval for clinical trials, namely sodium fluoride-18 injection, palladium-103 sealed source, and technetium-99 methylene diphosphonate injection, and four imaging diagnostic and therapeutic radiopharmaceuticals under various stages of research and development. In addition, we also plan to engage in the research and development of various imaging diagnostic and therapeutic radiopharmaceuticals to be funded by the net proceeds of the Global Offering. Our research and development expenses, excluding amortization costs, were approximately RMB44.6 million, RMB58.7 million and RMB73.5 million in 2015, 2016 and 2017, respectively. We believe the continual development of new products will stimulate the sustainable and organic growth of our business.

Our Ability to Effectively Control Costs and Expenses

Our profitability is affected by our ability to effectively control cost of sales and expenses.

Our cost of sales primarily includes raw material costs, trading costs and staff costs. The cost of purchasing raw materials is the largest component of our cost of sales. The cost of raw materials amounted to RMB294.7 million, RMB335.1 million and RMB371.8 million in 2015, 2016 and 2017, respectively, representing 44.3%, 48.0% and 47.2% of total cost of sales for the respective periods. Generally, our procurement cost of raw materials was relatively stable throughout the Track Record Period. However, the supply of certain raw materials, such as cobalt-60 for medical applications, fluctuated over the past few years and may decline in the future, which may adversely affect our procurement cost of such raw materials. To control our procurement cost, we have adopted various measures to mitigate the fluctuations of raw material cost, including centralized procurement to increase our bargaining power with suppliers, more efficient inventory management to adjust the frequency and quantity of procurement based on market conditions, the establishment of long-term strategic cooperative relationships with key suppliers, as well as engaging in the research and development of commercial production of key raw materials domestically by leveraging our in-depth expertise and manufacturing capability in order to reduce our reliance on overseas suppliers. We have also adopted internal policies and procedures for raw material procurement, and have made coordinated efforts to purchase raw materials for our downstream subsidiaries. In addition, we have developed several patented production and preparation methods designed to maximize production efficiency and safety. We have also devoted significant efforts to continuously improve our production efficiency, which will enable us to increase our production volumes to meet growing market demand without significantly increasing our raw materials, staff and other costs. As our production efficiency and economies of scale improve, our cost of sales as a percentage of revenue decreased from 30.9% in 2015 to 29.6% in 2016, and further to 29.5% in 2017.

In addition to our ability to control cost of sales, our ability to effectively control operating expenses, particularly our selling and distribution expenses, will have a significant impact on our profitability. Our operating expenses include selling and distribution expenses and administrative expenses. Selling and distribution expenses are a key component of our operating expenses, accounting for 37.7%, 39.5% and 41.0% of our revenue in 2015, 2016 and 2017, respectively. In the future, we intend to strengthen our marketing efforts, enhance our sales productivity and at the same time control our distribution expenses. On the other hand, as we continue to expand our business through organic growth, strategic acquisitions and continued efforts on marketing and promotion, our employee headcount is likely to continue to increase. We may increase the remuneration for our staff in order to recruit and retain talents for our business operations and research and development. We believe that our investments in human resources will allow us to increase our revenue and enhance our overall productivity, which in turn will have a positive effect on our results of operations.

CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial information. Note 2 to "Appendix I — Accountants' Report" in this prospectus includes a summary of significant accounting policies used in the preparation of our consolidated financial information. The determination of these accounting policies is fundamental to our financial condition and results of operations, and requires our management to make subjective and complex judgments about matters that are inherently uncertain based on information and data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgments as to future events and are subject to change, and the use of different assumptions or data could produce materially different results. In addition, actual results could differ from estimates and may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ significantly from our management's current judgments. We believe the following represents our critical accounting judgments and estimates:

Obligation for Reclamation

Pursuant to the relevant rules and requirements in China, we are obligated to reclaim and dispose returned radioactive sources, as well as to manage radioactive waste and dispose retired radioactive production and storage facilities, in relation to our radioactive source products and irradiation businesses. The estimation of the liabilities for reclamation and disposal involves the estimates of the amount and timing for the future expenditure as well as the discount rate used to reflect current market assessments of the time value and risks associated with such liabilities. The estimation is principally subject to the following factors, including future production plan, useful life of relevant assets and level of their respective radioactivity to determine the scope, amount and timing of our tentative reclamation obligation on the disposal of returned radioactive sources and radioactive production and storage facilities, which might turn out to be different from the actual expenditure to be incurred. Such amount is determined based upon our best estimates of the associated costs which may be subject to change in the near term when the reclamation obligation becomes apparent in the future. We reassess the estimated costs and adjust the accrued reclamation obligations, when necessary, at the end of each reporting period. Revisions to the estimation of associated costs, including the changes in estimated costs or changes in timing of the performance of relevant reclamation activities, will be recognized at the appropriate discount rate.

We also consider the following as our critical accounting judgments and estimates, the details of which are set out in note 3 to our consolidated financial information included in "Appendix I — Accountants' Report" to this prospectus:

- impairment loss for bad and doubtful debts;
- depreciation;
- recognition of deferred tax assets; and
- obligation for reclamation.

See note 36 to our consolidated financial information included in "Appendix I — Accountants' Report" for recently issued accounting standards and interpretations of existing standards that are not yet effective and have not been adopted early by us. We are in the process of making an assessment of the impact of the new and revised IFRSs set forth in the note.

COMPONENTS OF OUR CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The following table summarizes our consolidated statements of profit or loss for the periods indicated:

	Year ended December 31,		
	2015	**2016**	**2017**
	(RMB in millions)		
Revenue	2,152.1	2,363.1	2,672.0
Cost of sales	(664.9)	(698.8)	(787.3)
Gross profit	**1,487.2**	**1,664.3**	**1,884.8**
Other income	20.5	26.2	36.0
Selling and distribution expenses	(810.8)	(933.9)	(1,094.7)
Administrative expenses	(234.3)	(258.3)	(296.0)
Finance costs	(10.5)	(14.4)	(7.1)
Share of profits less losses of associates	17.2	11.5	14.8
Share of profits of a joint venture	16.5	17.3	20.2
Profit before taxation	**485.8**	**512.7**	**558.0**
Income tax	(75.4)	(78.2)	(82.3)
Profit for the year/period	**410.4**	**434.5**	**475.6**
Attributable to:			
Equity shareholder of the Company	254.2	262.1	271.5
Non-controlling interests	156.2	172.4	204.2

Revenue

We derive revenue from our four business segments: (i) pharmaceuticals; (ii) radioactive source products; (iii) irradiation; and (iv) independent clinical laboratory services and other businesses.

Our revenue for a business segment represents revenue generated from external sales, which is equal to the total revenue of the business segment after elimination of inter-segment revenue. In 2015, 2016 and 2017, our revenue was RMB2,152.1 million, RMB2,363.1 million and RMB2,672.0 million, respectively. The following table sets forth our revenue by business segment for the periods indicated:

	Year ended December 31,								
	2015			2016			2017		
	Revenue	Inter-segment Revenue	Segment Revenue	Revenue	Inter-segment Revenue	Segment Revenue	Revenue	Inter-segment Revenue	Segment Revenue
	(RMB in millions)								
Pharmaceuticals	1,773.6	5.7	1,779.3	1,971.1	3.1	1,974.2	2,253.8	2.6	2,256.3
Radioactive source product	275.2	33.3	308.5	287.7	22.0	309.7	292.2	21.2	313.4
Irradiation	47.9	—	47.9	51.1	—	51.1	65.9	0.7	66.7
Independent clinical laboratory services and other businesses	55.4	12.1	67.5	53.2	11.8	65.0	60.1	45.4	105.6
Elimination	—	(51.1)	(51.1)	—	(36.9)	(36.9)	—	(69.9)	(69.9)
Total	**2,152.1**	**—**	**2,152.1**	**2,363.1**	**—**	**2,363.1**	**2,672.0**	**—**	**2,672**

Each inter-segment revenue from our pharmaceuticals, radioactive source products, irradiation as well as independent clinical laboratory services and other businesses accounted for 0.3%, 10.8%, nil and 17.9% of each relevant segment revenue in 2015, 0.2%, 7.1%, nil and 18.2% of each relevant segment revenue in 2016, 0.1%, 6.8%, 1.0% and 43.0% of each relevant segment revenue in 2017, respectively.

Pharmaceuticals

Our pharmaceuticals business generates revenue primarily from manufacturing and sales of an extensive range of imaging diagnostic and therapeutic radiopharmaceuticals, UBT kits and analyzers, in vitro immunoassay reagents and kits and other products.

The following table sets forth a breakdown of revenue for our pharmaceuticals business segment by product category for the periods indicated:

	Year ended December 31,					
	2015		2016		2017	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(RMB in millions, except percentages)					
Imaging diagnostic and therapeutic radiopharmaceuticals	871.9	49.2	912.8	46.3	1,011.3	44.9
UBT kits and analyzers	771.5	43.5	919.5	46.6	1,123.7	49.9
In vitro immunoassay diagnostic reagents and kits	130.2	7.3	138.8	7.1	118.8	5.3
Total	**1,773.6**	**100.0**	**1,971.1**	**100.0**	**2,253.8**	**100.0**

In 2015, 2016 and 2017, revenue of our pharmaceuticals business was RMB1,773.6 million, RMB1,971.1 million and RMB2,253.8 million, respectively. This business segment experienced the most significant sales growth among all our business segments during the Track Record Period, in line with the general market growth in China. The revenue growth in 2016 and 2017 were primarily driven by an increase in sales of UBT kits.

We have launched diversified marketing and promotional activities to enhance our brand awareness and recognition of our products. Such efforts are characterized by a strong emphasis on academic promotion to enhance awareness and recognition of our products in the nuclear medicine community and among patients in China. We regularly organize and participate in various academic conferences, seminars and symposia, during which we invite leading experts in diagnostic and therapeutic areas to speak on the latest developments and share their experience to educate nuclear medicine physicians and other medical practitioners on our products. We also maintain long-term cooperative relationships with national academic associations and provide technical and practical training to hospitals and other medical institutions to help us more effectively market and sell our products.

Imaging diagnostic and therapeutic radiopharmaceuticals

Revenue of our imaging diagnostic and therapeutic radiopharmaceuticals business was RMB871.9 million, RMB912.8 million and RMB1,011.3 million in 2015, 2016 and 2017, representing 49.2%, 46.3% and 44.9%, respectively, of the revenue for our pharmaceuticals business segment for the same periods. For more information on our major imaging diagnostic and therapeutic radiopharmaceuticals products, see "Business — Pharmaceuticals — Imaging diagnostic and therapeutic radiopharmaceuticals." The increase in revenue from such business in 2016 mainly reflected the increased revenue generated from our major imaging diagnostic and therapeutic radiopharmaceuticals products, including sodium iodine-131 oral solution, iodine-125 sealed source, technetium-99m labeled injection and strontium-89 chloride injection. The increase in 2017 as compared to the same period in 2016 was mainly due to the increased revenue derived from fluorine-18-FDG injections, molybdenum-99/technetium-99m generator, sodium iodine-131 oral solution, technetium-99m labeled injection and iodine-125 sealed source.

UBT kits and analyzers

Revenue from sales of our UBT kits and analyzers business was RMB771.5 million, RMB919.5 million and RMB1,123.7 million in 2015, 2016 and 2017, representing 43.5%, 46.6% and 49.9%, respectively, of the revenue for our pharmaceuticals business segment for the same periods. For more information on our major UBT kit and analyzer products, see "Business — Pharmaceuticals — UBT kits and analyzers." The increase in revenue during the Track Record Period mainly reflected the increased revenue generated from our major UBT kit, principally carbon-14 UBT kit.

In vitro immunoassay diagnostic reagents and kits

Revenue from sales of our in vitro immunoassay diagnostic reagents and kits business was RMB130.2 million, RMB138.8 million and RMB118.8 million in 2015, 2016 and 2017, representing 7.3%, 7.1% and 5.3%, respectively, of the revenue of our pharmaceuticals business segment for the same periods. For more information on our major in vitro immunoassay diagnostic reagent and kit products, see "Business — Pharmaceuticals — Product Portfolio — In vitro immunoassay diagnostic reagents and kits." The slight increase in revenue in 2016 mainly reflected our increased sales volume of RIA kits. The decrease in 2017 was mainly due to the relatively lower sales of RIA kits as compared to the same period in 2016.

Radioactive Source Products

Our radioactive source products business generates revenue primarily from sales of our medical and industrial radioactive source products and technical services. In 2015, 2016 and 2017, revenue of our radioactive source products business was RMB275.2 million, RMB287.7 million and RMB292.2 million, respectively.

The following table sets forth a breakdown of the revenue for our radioactive source products business segment by product category for the periods indicated:

	Year ended December 31,					
	2015		2016		2017	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(RMB in millions, except percentages)					
Industrial radioactive source products	199.4	72.5	210.1	73.0	192.6	65.9
–Cobalt-60 for irradiation services	60.3	21.9	66.7	23.2	78.1	26.7
–Others	139.1	50.6	143.4	49.8	114.5	39.2
Medical radioactive source products	46.8	17.0	56.6	19.7	60.0	20.5
Technical services	29.0	10.5	21.0	7.3	39.6	13.6
Total	**275.2**	**100.0**	**287.7**	**100.0**	**292.2**	**100.0**

The revenue growth in 2016 was primarily driven by an increase in revenue from our medical radioactive source products, principally cobalt-60 source for medical radiotherapy purposes, and our industrial radioactive source products, mainly cesium-137 and americium-241/beryllium neutron source. The increase in 2017 as compared to the same period in 2016 was mainly due to the growing revenue from (i) our cobalt-60 source for industrial use, and (ii) our provision of technical services, as a result of our continuous efforts to develop decommission of radioactive source business.

Industrial radioactive source products

Revenue from our industrial radioactive source products mainly comprises our sales of cobalt-60 for irradiation services and sales of other products, principally californium-252 startup neutron source, iridium-192 non-destructive testing radioactive source, cesium-137 source and americium-241/beryllium neutron source. The industrial radioactive source products generated revenue of RMB199.4 million, RMB210.1 million and RMB192.6 million in 2015, 2016 and 2017, representing 72.5%, 73.0% and 65.9%, respectively, of the revenue for our radioactive source products business segment for the same periods. The changes during the Track Record Period substantially corresponded to the changes in market demand for industrial radioactive source products in line with the nature of our industrial radioactive source products, as we produce individually tailored industrial radioactive source products to our customers on demand.

Medical radioactive source products

Revenue from sales of our medical radioactive source products amounted to RMB46.8 million, RMB56.6 million and RMB60.0 million in 2015, 2016 and 2017, representing 17.0%, 19.7% and 20.5%, respectively, of the revenue for our radioactive source products business segment for the same periods. For more information on our major medical radioactive source products, see "Business — Radioactive Source Products — Product Portfolio." The increase in revenue from our medical radioactive source products in 2016 was primarily due to the increase in sales volume of cobalt-60 source for medical radiotherapy. The increase in 2017 was mainly due to the increased revenue generated from the sales of gamma knife therapy devices.

Technical services

In addition to the production of various radioactive source products, we provide technical services associated with our sales of radioactive source products, mainly including sealed source reloading, radioactive material transportation and decommission of radioactive sources. Revenue for our technical services amounted to RMB29.0 million, RMB21.0 million and RMB39.6 million in 2015, 2016 and 2017, representing 10.5%, 7.3% and 13.6%, respectively, of the revenue for our radioactive source products business segment for the same periods. The decrease in 2016 was mainly due to (i) the decreased transaction volume of our medical and industrial radioactive source products which in turn reduced customer demand for our technical services, and (ii) the renovation of certain of our production lines, mainly for our medical radioactive source products. The increase in 2017 as compared to the same period in 2016 was mainly attributable to our continuous efforts to develop decommission of radioactive source business.

Irradiation

Our irradiation business segment generates revenue primarily from the provision of irradiation services to manufacturers of medical devices, traditional Chinese medicine, cosmetics and food for sterilization purposes, and the provision of EPC services relating to irradiation facilities to irradiation service providers in China. Revenue from our irradiation business amounted to RMB47.9 million, RMB51.1 million and RMB65.9 million in 2015, 2016 and 2017, respectively.

The following table sets forth a breakdown of revenue for our irradiation business segment by service category for the periods indicated:

	Year ended December 31,					
	2015		2016		2017	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(RMB in millions, except percentages)					
Irradiation services	38.5	80.4	44.3	86.7	53.0	80.4
Irradiation facilities EPC services	9.4	19.6	6.8	13.3	13.0	19.6
Total	**47.9**	**100.0**	**51.1**	**100.0**	**65.9**	**100.0**

The increase in 2016 as compared to 2015 was mainly a result of our increased revenue from irradiation services rendered, mainly due to our growing irradiation services business. The increase in 2017 as compared to 2016 was mainly due to the overall expansion of such business segment.

Irradiation services

Revenue generated from our irradiation services was RMB38.5 million, RMB44.3 million and RMB53.0 million in 2015, 2016 and 2017, representing 80.4%, 86.7% and 80.4%, respectively, of the revenue for our irradiation business segment for the same periods. The increases during the Track Record Period were primarily due to the organic growth of our irradiation service business and the trial operation of our new irradiation facilities located in Jilin province and Sichuan province.

Irradiation facilities EPC services

Revenue generated from our irradiation facilities EPC services amounted to RMB9.4 million, RMB6.8 million and RMB13.0 million in 2015, 2016 and 2017, representing 19.6%, 13.3% and 19.6%, respectively, of the revenue for our irradiation business for the same periods. The decrease in 2016 mainly resulted from weaker market demand on irradiation facilities in China. The increase in 2017 was mainly because we recognized such amount of revenue upon completion of project during such period as compared to the same period in 2016.

Independent Clinical Laboratory Services and Other Businesses

As a downstream extension of our in vitro immunoassay diagnostic reagents and kits, we provide independent clinical laboratory services to our customers. During the Track Record Period, we also generated revenue from trading of copper and provision of transportation services. In 2015, 2016 and 2017, revenue generated from our independent clinical laboratory services and other businesses amounted to RMB55.4 million, RMB53.2 million and RMB60.1 million, respectively.

The following table sets forth a breakdown of revenue for our independent clinical laboratory services and other businesses by service category for the periods indicated:

	Year ended December 31,					
	2015		2016		2017	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(RMB in millions, except percentages)					
Independent clinical laboratory services	36.8	66.4	43.5	81.8	57.5	95.7
Others	18.6	33.6	9.7	18.2	2.6	4.3
Total	**55.4**	**100.0**	**53.2**	**100.0**	**60.1**	**100.0**

The slight decrease in 2016 were mainly because we ceased our copper trading business in April 2016, partially offset by an increase in revenue from our independent clinical laboratory services. The increase in 2017 was mainly due to the increased revenue generated from our growing independent clinical laboratory services.

Cost of Sales, Gross Profit and Gross Margin

Our cost of sales represents cost of sales of a business segment after elimination of inter-segment cost of sales.

In 2015, 2016 and 2017, our cost of sales was RMB664.9 million, RMB698.8 million and RMB787.3 million, respectively, and our gross profit was RMB1,487.2 million, RMB1,664.3 million and RMB1,884.8 million. Our gross margin, which equals gross profit divided by revenue, was 69.1%, 70.4% and 70.5%, respectively, for the same periods. The increase in our gross margin in 2016 was primarily due to the increased sales of our pharmaceuticals, which had relatively higher profit margins, and a change in our product mix as our pharmaceuticals business segment grew faster relative to our other business segments during these periods. Our gross margin remained relatively stable at 70.5% in 2017 as compared to the previous year.

The following table sets forth a breakdown of our revenue, cost of sales, gross profit and gross margin by business segment for the periods indicated:

	Year ended December 31,					
	2015		2016		2017	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(RMB in millions, except percentages)					
Pharmaceuticals						
Revenue	1,773.6	100.0	1,971.1	100.0	2,253.8	100.0
Cost of sales	456.7	25.7	479.9	24.3	545.5	24.2
Segment gross profit	1,316.9	74.3	1,491.2	75.7	1,708.2	75.8
Radioactive source products						
Revenue	275.2	100.0	287.7	100.0	292.2	100.0
Cost of sales	145.8	53.0	149.9	52.1	156.9	53.7
Segment gross profit	129.4	47.0	137.8	47.9	135.4	46.3
Irradiation						
Revenue	47.9	100.0	51.1	100.0	65.9	100.0
Cost of sales	29.9	62.4	32.0	62.6	44.9	68.1
Segment gross profit	18.0	37.6	19.1	37.4	21.1	31.9
Independent clinical laboratory services and other businesses						
Revenue	55.4	100.0	53.2	100.0	60.1	100.0
Cost of sales	32.6	58.8	37.1	69.7	40.0	66.5
Segment gross profit	22.8	41.2	16.1	30.3	20.2	33.5

The following table sets forth a breakdown of our cost of sales for the periods indicated:

	Year ended December 31,					
	2015		2016		2017	
	Amount	% of Cost of Sales	Amount	% of Cost of Sales	Amount	% of Cost of Sales
	(RMB in millions, except percentages)					
Raw materials costs	294.7	44.3	335.1	48.0	371.8	47.2
Staff costs	133.1	20.0	137.4	19.7	146.6	18.6
Trading costs	98.0	14.7	74.8	10.7	101.5	12.9
Depreciation and amortization	31.6	4.8	39.4	5.6	39.7	5.0
Business taxes and surcharges	31.2	4.7	33.3	4.8	39.7	5.0
Construction costs	6.1	0.9	2.7	0.4	7.9	1.0
Freight	9.4	1.4	8.7	1.2	8.5	1.1
Repair and maintenance	9.7	1.5	9.1	1.3	9.1	1.2
Gamma radiation processing cost	9.5	1.4	8.8	1.3	8.5	1.1
Fuel costs	7.2	1.1	9.6	1.4	9.0	1.1
Rental costs	6.5	1.0	7.6	1.1	7.0	0.9
Safety production expenses	10.8	1.6	9.5	1.3	15.9	2.0
Others	17.1	2.6	22.8	3.2	22.1	2.8
Total	**664.9**	**100.0**	**698.8**	**100.0**	**787.3**	**100.0**

Our raw material costs primarily consist of costs incurred for the procurement of radioisotopes for radiopharmaceuticals and radioactive source products, such as molybdenum-99/technetium-99, iodine-131, iodine-125, carbon-14 and strontium-89 chloride as well as other supplies. Our staff costs mainly include salaries and benefits for employees involved in the production of our products. Trading costs primarily consist of expenses incurred for goods purchased for sale, mainly including radioisotopes, labeled compound and radioactive source products. Depreciation and amortization mainly relate to property, plants and equipment as well as intangible assets used for the production of our products. Other costs include utilities, traveling, other production overheads and sundry expenses.

We purchase raw materials on an as-needed basis at market prices. In 2015, 2016 and 2017, our cost of sales accounted for 30.9%, 29.6% and 29.5% of our revenue for the same periods, in which our raw material costs accounted for 44.3%, 48.0% and 47.2% of our cost of sales for the same periods, respectively.

Pharmaceuticals

The principal components of cost of sales of our pharmaceuticals business segment mainly are raw material costs, trading costs, staff costs, depreciation and amortization as well as business taxes and surcharges. In 2015, 2016 and 2017, cost of sales in our pharmaceuticals business was RMB456.7 million, RMB479.9 million and RMB545.5 million, respectively. The increase in cost of sales in 2016 was largely due to the growth of such business segment, mainly reflecting the increased sales of our key imaging diagnostic and therapeutic radiopharmaceuticals, including sodium iodine-131 oral solution and iodine-125 sealed source. The increase 2017 as compared to the same period in 2016 mainly corresponded to the increased sales of our fluorine-18-FDG injections, molybdenum-99/technetium-99m generator, sodium iodine-131 oral solution, technetium-99m labeled injection and iodine-125 sealed source during such period.

In 2015, 2016 and 2017, segment gross profit, which is equal to revenue less cost of sales, was RMB1,316.9 million, RMB1,491.2 million and RMB1,708.2 million, respectively. In 2015, 2016 and 2017, segment gross margin, which is equal to segment gross profit divided by revenue, was 74.3%, 75.7% and 75.8%, respectively. During these periods, the gross margin of the pharmaceuticals business was primarily affected by a number of factors, such as product mix, customer mix, regulatory environment, market conditions and competition.

Radioactive Source Products

The principal components of the cost of sales of our radioactive source products business segment mainly include raw material costs, trading costs, staff costs, depreciation and amortization as well as business taxes and surcharges. In 2015, 2016 and 2017, cost of sales in our radioactive source products business was RMB145.8 million, RMB149.9 million and RMB156.9 million, respectively. The increases in cost of sales during the Track Record Period generally corresponded to the increases in our sales scale.

In 2015, 2016 and 2017, segment gross profit, which is equal to revenue less cost of sales, was RMB129.4 million, RMB137.8 million and RMB135.4 million, and our gross margin, which is equal to segment gross profit divided by revenue, was 47.0%, 47.9% and 46.3%, respectively. During the Track Record Period, the gross margin of our radioactive source products business was primarily affected by a number of factors, including product mix and cost structure, regulatory environment, market conditions and competition. Our gross margin slightly increased in 2016 was primarily because of our decreased sales of californium-252 startup neutron source and iridium-192 non-destructive testing radioactive source, which have relatively lower profit margins. Our gross margin decreased in 2017 as compared to 2016 was primarily because of our increased proportion of sales of cobalt-60 source for industrial use and sales of gamma knife therapy devices, which have relatively lower profit margins.

We are implementing a number of strategies to improve profitability of our radioactive source products and technical services business. For example, we plan to further develop our cooperative relationships with key suppliers and customers, while strategically increasing our inventory stock of raw materials and actively exploring expansion of our sales scale and enhancement of our market share nationally.

Irradiation

The cost of sales of irradiation business mainly consists of the cost incurred for the provision of our EPC projects in relation to the design, construction and installment of irradiation facilities, depreciation and amortization on cobalt-60 and staff costs for our production and irradiation service employees. In 2015, 2016 and 2017, cost of sales in our irradiation business was RMB29.9 million, RMB32.0 million and RMB44.9 million, respectively. The changes in irradiation cost of sales during the Track Record Period generally corresponded to the changes in our operational scale.

In 2015, 2016 and 2017, segment gross profit, which is equal to revenue less cost of sales, was RMB18.0 million, RMB19.1 million and RMB21.1 million, and our segment gross margin, which is equal to segment gross profit divided by revenue, was 37.6%, 37.4% and 31.9%, respectively. The slight decrease of segment gross margin in 2016 was largely due to the change in our service mix. The decrease in such segment gross margin in 2017 as compared to 2016 was mainly due to the growing proportion of our irradiation facilities EPC service business which has a relatively lower gross margin.

To improve profitability of our irradiation business, we endeavor to further strengthen our promotional and marketing capability to expand our customer base, while enhancing our integration of irradiation services to optimize our service mix.

Independent Clinical Laboratory Services and Other Businesses

The cost of sales of our independent clinical laboratory services and other businesses mainly consists of raw material costs incurred for in vitro immunoassay diagnostic reagents and kits relating to the provision of our independent clinical laboratory services and staff costs. In 2015, 2016 and 2017, cost of sales amounted to RMB32.6 million, RMB37.1 million and RMB40.0 million, respectively. The increases in cost of sales in the Track Record Period were largely due to the growth of our independent clinical laboratory services.

In 2015, 2016 and 2017, segment gross profit, which is equal to revenue less cost of sales, was RMB22.8 million, RMB16.1 million and RMB20.2 million, and our segment gross margin, which is equal to segment gross profit divided by revenue, was 41.2%, 30.3% and 33.5%, respectively. The decrease in our segment gross margin from 2015 to 2016 was mainly due to the changes in our service mix with different profit margin. The increase in our segment gross margin in 2017 was principally due to the faster increase in revenue from our independent clinical laboratory services largely as a result of our efforts to expand customer base with relatively higher profit margin.

Other Income

Our other income consists primarily of interest income, government grants, rental income from operating leases and net gain or loss on disposal of property, plant and equipment. Interest income mainly represents the interest we earn from our cash deposits with banks and other financial institutions. Government grants mainly represent government awards relating to research and development projects and for our contribution to the development of the local economic development. There were no unfulfilled conditions or other contingencies attached to the government grants. Rental income mainly represents income received and related payments received for renting out our property, plant and equipment.

The following table sets forth a breakdown of our other income for the periods indicated:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Interest income	6.1	7.3	15.9
Government grants	4.6	7.3	9.0
Rental income from operating leases	5.7	7.1	6.7
Net (loss)/gain on disposal of property, plant and equipment	0.4	2.4	(1.2)
Net (loss)/gain on disposal of long-term investments	1.3	—	—
Distributions from unquoted equity investment	1.4	0.5	1.7
Others	1.0	1.6	3.9
Total	**20.5**	**26.2**	**36.0**

In 2015, 2016 and 2017, our other income was RMB20.5 million, RMB26.2 million and RMB36.0 million, respectively.

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of sales service fee, staff costs, freight expenses, advertising expenses, business development expenses, exhibition expenses and depreciation and amortization. Sales service fee mainly consists of expenses incurred for marketing and promotion services provided by our promoters and distributors, which largely relates to the sales of our iodine-125 sealed sources, strontium-89 chloride injections and UBT kits and UBT analyzers. Staff costs consists primarily of salaries and benefit expenses for our sales and marketing personnel. Freight expenses consist primarily of expenses incurred in relation to the delivery of our products and services from our production facilities and direct sales networks to customers. Business development expenses consist primarily of entertainment expenses incurred by sales and marketing staff as well as reception expenses. Advertising expenses consist primarily of fees associated with advertisements placed in various media and expenses incurred in conducting marketing and other promotional activities for our products and services. Exhibition expenses consist mainly of fees incurred for the sales and marketing of our products in exhibitions. Depreciation and amortization primarily relate to properties for sales and marketing activities. Others primarily include labor fees, travel expenses, professional consultancy fees and other miscellaneous fees for sales and marketing.

The following table sets forth a breakdown of our selling and distribution costs for the periods indicated:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Sales service fee	675.0	789.6	955.0
Staff costs	46.0	50.4	52.2
Freight expenses	35.0	40.6	45.8
Business development expenses	7.1	7.5	9.6
Advertising expenses	12.8	12.6	7.1
Exhibition expenses	2.1	7.9	5.7
Depreciation and amortization	4.8	4.6	5.7
Others	28.0	20.7	13.5
Total	**810.8**	**933.9**	**1,094.7**

In 2015, 2016 and 2017, our selling and distribution expenses were RMB810.8 million, RMB933.9 million and RMB1,094.7 million, respectively. During the Track Record Period, our selling and distribution expenses increased in proportion to the growth of our business.

Administrative Expenses

Administrative expenses primarily consist of staff costs and research and development expenses, as well as various other expenses. Administrative staff costs primarily consist of salaries and employee benefit expenses for our management, administrative, finance and accounting staff. Research and development expenses, excluding amortization costs, primarily consist of costs, expenses and fees incurred in relation to our new product and service development and relevant staff costs. Administrative expenses also include impairment loss on trade receivables, depreciation and amortization charges related to our properties, facilities and intangible assets, traveling expenses, entertainment expenses, office expenses incurred by our administrative personnel, and other miscellaneous fees for general administrative purposes, including repair and maintenance, intermediary expenses, meeting expenses, costs incurred for buildings leased out and other sundry expenditures.

The following table sets forth the components of our administrative expenses for the periods indicated:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Staff costs	107.1	109.5	132.1
Research and development expenses, excluding amortization costs	44.6	58.7	73.5
Impairment loss	14.7	12.5	15.3
Depreciation and amortization	14.1	17.2	12.6
Traveling expenses	5.5	6.2	7.6
Entertainment expenses	4.3	3.3	2.9
Office expenses	3.3	2.9	3.6
Intermediary expenses	3.4	7.3	4.0
Repair and maintenance	1.0	0.9	0.5
Meeting expenses	1.3	0.9	1.2
Others	35.0	38.9	42.8
Total	**234.3**	**258.3**	**296.0**

In 2015, 2016 and 2017, our administrative expenses were RMB234.3 million, RMB258.3 million and RMB296.0 million, respectively. The increase in 2016 mainly resulted from the increased staff costs, research and development expenses (excluding amortization costs) and traveling expenses, mainly in relation to the Global Offering and our continued research and development efforts. The increase in 2017 was primarily due to the increases in staff costs, and research and development expenses (excluding amortization costs).

We expect our distribution expenses and administrative expenses to increase in absolute terms going forward, as we continue to expand the scale of our business operations through both organic growth and acquisitions.

Finance Costs

Our finance costs include interest on borrowings, interest accretion on reclamation obligation, interest cost on defined benefit retirement plans, as well as foreign exchange loss. Our interest on borrowings relates to interest expenses incurred on borrowings from third parties and related parties. Our interest accretion on reclamation obligation, relates to our future liabilities for reclamation and disposal of returned radioactive fixed assets. Our interest cost on defined benefit retirement plans is associated with the regulatory benefit contributions to our employees upon retirement based on the applicable benchmarks and rates stipulated by the PRC government and our internal salary and benefit policies.

The following table sets forth the components of our finance costs for the periods indicated:

	Year ended December 31,		
	2015	2016	2017
	(RMB in millions)		
Interest on borrowings	5.1	9.0	2.2
Interest accretion on reclamation obligation	2.8	3.1	3.3
Interest cost on defined benefit retirement plans	1.1	1.2	1.4
Net foreign exchange loss	1.5	1.1	0.2
Total	**10.5**	**14.4**	**7.1**

As a percentage of revenue, finance costs increased slightly from 0.5% in 2015 to 0.6% in 2016, mainly reflecting our increased interest incurred for loans from related parties, while decreasing to 0.3% in 2017, primarily due to our decreased interest incurred for loans as we repaid our short-term borrowings in the first half of 2017. See "Appendix I — Accountants' Report — Material Related Party Transactions" for further details.

Share of Profits Less Losses of Associates and Share of Profits of A Joint Venture

We account for an entity as our associate if we have significant influence but no control or joint control over such entity. We account for an entity as our joint venture if neither we nor our joint venture partner, pursuant to the relevant joint venture agreements, has unilateral control over the economic activities of such joint venture. Investments in associates or joint ventures are accounted for using the equity method of accounting. We recognize our share of profits less losses of associates and share of profits of a joint venture in the income statement.

In 2015, 2016 and 2017, we had share of profits less losses of associates of RMB17.2 million, RMB11.5 million and RMB14.8 million, respectively. In 2015, 2016 and 2017, we had share of profits of a joint venture of RMB16.5 million, RMB17.3 million and RMB20.2 million, respectively. We expect our share of profits less losses of associates and share of profits of a joint venture will not have a significant impact on our results of operations.

Income Tax

Our income tax expense mainly consists of PRC enterprise income tax. Our Company and PRC subsidiaries are subject to income tax in China. Our PRC subsidiaries are subject to income tax at a rate of 25% on their respective taxable income, except for the following subsidiaries which enjoyed preferential tax treatment as of December 31, 2017, mainly including:

- seven of our subsidiaries, three of which were approved as "High and New Technology Enterprises" in September 2015, one in July 2017, two in August 2017 and one in October 2017, enjoyed preferential enterprise income tax rate of 15% for a three-year period. Under the EIT Law and the relevant regulations, the 15% preferential enterprise income tax rate is subject to renewal after expiry every three years;
- one of our PRC subsidiaries, which is engaged in the encouraged business activities under the Second Phase of the Western Region Development Plan, is entitled to a preferential enterprise income tax rate of 15% for a three-year period upon the satisfaction of a series of financial and non-financial requirements, which is currently scheduled to expire at the end of 2020. Such subsidiary enjoyed the income tax rate of 15% in 2015 and 2016; and

- two of our PRC subsidiaries, which are qualified as "Small and Micro Enterprises," enjoyed preferential enterprise income tax rate of 10% in 2016, which is currently scheduled to expire at the end of 2019 pursuant to the EIT Law and the relevant regulations, while three of our PRC subsidiaries, which are qualified as "Small and Micro Enterprises," enjoyed preferential enterprise income tax rate of 10% in 2015.

In addition to applicable enterprise income tax rates, our effective enterprise income tax rates may also be affected by amounts relating to portions of income not subject to taxation, costs and expenses not deductible for taxation purposes, certain tax benefits on qualified research and development expenses and utilization of tax losses for which no deferred income tax assets were recognized.

In 2015, 2016 and 2017, our income tax expense was RMB75.4 million, RMB78.2 million and RMB82.3 million, respectively. Our effective enterprise income tax rates in 2015, 2016 and 2017 were 15.5%, 15.3% and 14.8%, respectively.

During the Track Record Period and up to the Latest Practicable Date, we fulfilled all our tax obligations and did not have any material unresolved tax disputes.

RESULTS OF OPERATIONS

The following discussion and analysis compares the major components of our operating results in 2015, 2016 and 2017.

Comparison of Years Ended December 31, 2017 and December 31, 2016

Revenue

Our revenue increased by 13.1% from RMB2,363.1 million in 2016 to RMB2,672.0 million in 2017, primarily due to increased revenue generated from our pharmaceuticals and irradiation segments.

Pharmaceuticals

Revenue of our pharmaceuticals business segment increased by 14.3% from RMB1,971.1 million in 2016 to RMB2,253.8 million in 2017, primarily due to the increased sales scale of our imaging diagnostic and therapeutic radiopharmaceuticals and UBT kits and analyzers businesses.

- *Imaging diagnostic and therapeutic radiopharmaceuticals*

Revenue from sales of our imaging diagnostic and therapeutic radiopharmaceuticals increased by 10.8% from RMB912.8 million in 2016 to RMB1,011.3 million in 2017. This was mainly due to the increased revenue generated from our iodine-125 sealed source, fluorine-18-FDG injections, sodium iodine-131 oral solution, molybdenum- 99/technetium-99m generator and technetium-99m labeled injection, as driven by our ability to capture the high market demand through expanded distribution network during such period.

- *UBT kits and test analyzers*

Revenue from sales of our UBT kits and analyzers increased by 22.2% from RMB919.5 million in 2016 to RMB1,123.7 million in 2017. This was mainly due to the increased revenue generated from our carbon-14 UBT kit in response to the high market demand on such product by leveraging our expanded distribution network during this period.

- *In vitro immunoassay diagnostic reagents and kits*

Revenue from in vitro immunoassay diagnostic reagents and kits decreased by 14.4% from RMB138.8 million in 2016 to RMB118.8 million in 2017. The decrease in revenue generated from our in vitro immunoassay diagnostic reagents and kits was mainly due to the relatively lower sales of RIA kits as compared to the same period in 2016.

Radioactive Source Products

Revenue of our radioactive source products business segment slightly increased by 1.6% from RMB287.7 million in 2016 to RMB292.2 million in 2017. This increase was mainly due to the expanding sales of our cobalt-60 source for industrial use and our progressive provision of technical services.

- *Industrial radioactive source products*

Revenue from sales of our industrial radioactive source products decreased by 8.3% from RMB210.1 million in 2016 to RMB192.6 million in 2017, primarily because of our decreased revenue from our products other than cobalt-60 for irradiation services from RMB143.4 million in 2016 to RMB114.5 million in 2017, mainly relating to our relatively lower revenue from californium-252 startup neutron source. Such decrease was partially offset by our increased revenue generated from the sales of cobalt-60 for irradiation services from RMB66.7 million in 2016 to RMB78.1 million in 2017 as a result of the increased sales volume.

- *Medical radioactive source products*

Revenue generated from our medical radioactive source products increased by 6.0% from RMB56.6 million in 2016 to RMB60.0 million in 2017. This was mainly due to our increased sales of gamma knife therapy devices, which primarily attributable to our enhanced efforts to increase sales of gamma knife therapy devices in the second half of 2017.

- *Technical services*

Revenue generated from our technical services increased significantly from RMB21.0 million in 2016 to RMB39.6 million in 2017. This was mainly attributable to our continuous efforts to develop decommission of radioactive source business.

Irradiation

Revenue of our irradiation business segment increased by 29.0% from RMB51.1 million in 2016 to RMB65.9 million in 2017, mainly due to the overall growth in such business segment.

- *Irradiation services*

Revenue generated from our irradiation services increased by 19.6% from RMB44.3 million in 2016 to RMB53.0 million in 2017, mainly attributable to our continuous efforts to grow such business.

- *Irradiation facilities EPC services*

Revenue generated from our irradiation facilities EPC services increased by 89.7% from RMB6.8 million in 2016 to RMB13.0 million in 2017, primarily because we recognized the revenue from certain of our irradiation facilities EPC services upon completion of project.

Independent Clinical Laboratory Services and Other Businesses

Revenue of our independent clinical laboratory services and other businesses segment increased by 13.0% from RMB53.2 million in 2016 to RMB60.1 million in 2017, mainly due to the increased revenue generated from our independent clinical laboratory services, which was primarily in line with the growing market demand, our business expansion and focus on promotion and marketing of independent clinical laboratory services.

Cost of Sales, Gross Profit and Gross Margin

Our cost of sales increased by 12.7% from RMB698.8 million in 2016 to RMB787.3 million in 2017, corresponding to the increase in our total revenue.

Our gross profit was RMB1,664.3 million and RMB1,884.8 million and our gross margin remained relatively stable at 70.4% and 70.5%, respectively, in 2016 and 2017.

Pharmaceuticals

Cost of sales of our pharmaceuticals business segment increased by 13.7% from RMB479.9 million in 2016 to RMB545.6 million in 2017, corresponding to the increase in segment revenue, mainly relating to our fluorine-18-FDG injections, molybdenum-99/technetium-99m generator, sodium iodine-131 oral solution, technetium-99m labeled injection products and iodine-125 sealed source.

Segment gross profit of our pharmaceuticals business increased from RMB1,491.2 million in 2016 to RMB1,708.2 million in 2017, while segment gross margin amounted to 75.7% and 75.8% during the same periods.

Radioactive Source Products

Cost of sales of our radioactive source products business segment increased by 4.7% from RMB149.9 million in 2016 to RMB156.9 million in 2017, corresponding to the increase in revenue of such segment, mainly reflecting the increased sales of our cobalt-60 for irradiation services.

Segment gross profit of our radioactive source products business segment decreased slightly from RMB137.8 million in 2016 to RMB135.4 million in 2017, while segment gross margin was 47.9% and 46.3% during the same periods. The decrease in segment gross margin largely reflected our increased proportion of sales of cobalt-60 source for industrial use and sales of gamma knife therapy devices, which have relatively lower profit margins.

Irradiation

Cost of sales of our irradiation business segment increased by 40.3% from RMB32.0 million in 2016 to RMB44.9 million in 2017, mainly due to the increased sales scale of our irradiation business.

Segment gross profit of our irradiation business segment increased by 10.0% from RMB19.1 million in 2016 to RMB21.1 million in 2017, while segment gross margin was 37.4% and 31.9%. The decrease in segment gross margin during the period was largely attributable to the expanding portion of our irradiation facilities EPC service business with a relatively lower gross margin.

Independent Clinical Laboratory Services and Other Businesses

Cost of sales of our independent clinical laboratory services and other businesses segment increased by 7.8% from RMB37.1 million in 2016 to RMB40.0 million in 2017, mainly corresponding to the increased sales scale of independent clinical laboratory services.

Segment gross profit of our independent clinical laboratory services and other businesses segment increased from RMB16.1 million in 2016 to RMB20.2 million in 2017, while segment gross margin increased from 30.3% to 33.4% during the same period, mainly because of the faster increase in revenue generated from our independent clinical laboratory services largely as a result of our proactive efforts to expand customer base with relatively higher profit margin.

Other Income

Our other income increased by 37.2% from RMB26.2 million in 2016 to RMB36.0 million in 2017, mainly due to (i) an increase in interest income on bank deposits associated with proceeds from the pre-IPO investment and (ii) an increase in our government grants from local government authorities in relation to our research and development programs, to encourage the development of certain enterprises established in the local special economic region or to support the general operations of such entities, largely relating to our imaging diagnostic and therapeutic radiopharmaceuticals, UBT kits and irradiation businesses.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 17.2% from RMB933.9 million in 2016 to RMB1,094.7 million in 2017, which mainly reflected an increase in sales service fee resulting from our growing operational scale, principally in relation to the sales of our imaging diagnostic and therapeutic radiopharmaceutical products.

As a percentage of revenue, selling and distribution expenses increased slightly from 39.5% in 2016 to 41.0% in 2017.

Administrative Expenses

Our administrative expenses increased by 14.6% from RMB258.3 million in 2016 to RMB296.0 million in 2017, mainly due to (i) the increased staff costs resulting from our expanded operational scale and increased provision for employee retirement benefit plans, and (ii) the increased research and development expenses (excluding amortization costs) mainly reflected in our continued research and development efforts relating to our imaging diagnostic and therapeutic radiopharmaceuticals, and high enriched carbon-13 monoxide.

As a percentage of revenue, administrative expenses increased slightly from 10.9% in 2016 to 11.1% in 2017.

Finance Costs

Our finance costs decreased by 50.7% from RMB14.4 million in 2016 to RMB7.1 million in 2017, which was mainly attributable to our decreased interest incurred for loans as we repaid our short-term borrowings in the first half of 2017.

Share of Profits Less Losses of Associates and Share of Profits of A Joint Venture

Our share of profits less losses of associates increased by 28.7% from RMB11.5 million in 2016 to RMB14.8 million in 2017, mainly due to the increased profits derived from our associate, Shenzhen CICAM. Our share of profits of a joint venture increased by 16.8% from RMB17.3 million in 2016 to RMB20.2 million in 2017, mainly due to the increased profits from our joint venture, Shanghai GMS Pharmaceutical.

Profit before Taxation

As a result of the foregoing, our profit before taxation increased by 8.8% from RMB512.7 million in 2016 to RMB558.0 million in 2017.

Income Tax

Our income tax increased by 5.2% from RMB78.2 million in 2016 to RMB82.3 million in 2017, mainly due to our increased taxable income.

Our effective tax rate was 15.3% and 14.9% in 2016 and 2017, respectively.

Profit for the Period

As a result of the foregoing, our profit for the period increased by 9.5% from RMB434.5 million in 2016 to RMB475.6 million in 2017.

Comparison of Years Ended December 31, 2016 and December 31, 2015

Revenue

Our revenue increased by 9.8% from RMB2,152.1 million in 2015 to RMB2,363.1 million in 2016, primarily due to increased revenue generated from our pharmaceuticals, radioactive source products and irradiation business segments.

Pharmaceuticals

Revenue of our pharmaceuticals business segment increased by 11.1% from RMB1,773.6 million in 2015 to RMB1,971.1 million in 2016, primarily due to an increase in sales from our UBT kits and analyzers, mainly carbon-14 UBT kit, carbon-14 helicobacter pylori analyzer and carbon-13 capsule UBT kit, as a result of expanding market application and growing market demand in China.

- *Imaging diagnostic and therapeutic radiopharmaceuticals*

Revenue from sales of our imaging diagnostic and therapeutic radiopharmaceuticals increased by 4.7% from RMB871.9 million in 2015 to RMB912.8 million in 2016. This was mainly due to the increased revenue generated from our major imaging diagnostic and therapeutic radiopharmaceuticals products, including sodium iodine-131 oral solution, iodine-125 sealed source, technetium-99m labeled injection and strontium-89 chloride injection, principally as a result of increased sales volume which in turn was primarily driven by the increasing market demand in China and our effective marking and promotional efforts to capture a large portion of the expanding PRC imaging diagnostic and therapeutic radiopharmaceuticals market.

- *UBT kits and test analyzers*

Revenue from sales of our UBT kits and analyzers increased by 19.2% from RMB771.5 million in 2015 to RMB919.5 million in 2016. This was mainly due to the increased revenue generated from our major UBT kit and analyzer products, principally carbon-14 UBT kit with card, carbon-14 helicobacter pylori analyzer and carbon-13 capsule UBT kit, which was largely attributable to the increased sales volume resulting from our ability to capture the high market demand for such products in China through our effective marketing and promoting efforts.

- *In vitro immunoassay diagnostic reagents and kits*

Revenue from in vitro immunoassay diagnostic reagents and kits increased by 6.6% from RMB130.2 million in 2015 to RMB138.8 million in 2016. The increase in revenue generated from our in vitro immunoassay diagnostic reagents and kits was mainly due to our increased sales volume of RIA kits, which was largely driven by the steadily growing market demand of our products in China in line with growing market trend and our continued efforts on enhancing marketing and sales.

Radioactive Source Products

Revenue of our radioactive source products business segment increased by 4.5% from RMB275.2 million in 2015 to RMB287.7 million in 2016. This increase was mainly due to an increase in sales from our medical radioactive source products, which mainly reflected our increased sales of cobalt-60 source for medical radiotherapy purposes as we strategically increased procurement of cobalt-60 aforehand.

- *Industrial radioactive source products*

Revenue from sales of our industrial radioactive source products increased by 5.4% from RMB199.4 million in 2015 to RMB210.1 million in 2016, primarily because of our increased revenue generated from the provision of cobalt-60 for irradiation services from RMB60.3 million in 2015 to RMB66.7 million in 2016, and our increased revenue from our other products from RMB139.1 million in 2015 to RMB143.4 million in 2016, mainly relating to the increased sales of our cesium-137 and americium-241/beryllium neutron source.

- *Medical radioactive source products*

Revenue generated from our medical radioactive source products increased from RMB46.8 million in 2015 to RMB56.6 million in 2016. This was mainly due to the increase in sales volume of cobalt-60 source for medical radiotherapy, which in turn was attributable to our effective efforts to procure sufficient raw material of cobalt-60 beforehand to meet our production needs.

- *Technical services*

Revenue generated from our technical services decreased from RMB29.0 million in 2015 to RMB21.0 million in 2016. This was mainly attributable to the suspension of our certain production lines for renovation, mainly in relation to the manufacturing of our medical radioactive source products, which reduced the revenue from our technical service contracts recognized in 2016.

Irradiation

Revenue of our irradiation business segment increased from RMB47.9 million in 2015 to RMB51.1 million in 2016, mainly due to our increased revenue from irradiation services rendered.

- *Irradiation services*

Revenue generated from our irradiation services increased from RMB38.5 million in 2015 to RMB44.3 million in 2016, mainly attributable to our growing revenue generated from existing irradiation facilities and the trial operation of our new irradiation facilities located in Sichuan and Jilin provinces.

- *Irradiation facilities EPC services*

Revenue generated from our irradiation facilities EPC services decreased from RMB9.4 million in 2015 to RMB6.8 million in 2016, primarily in line with a slowdown in market demand.

Independent Clinical Laboratory Services and Other Businesses

Revenue of our independent clinical laboratory services and other businesses segment decreased slightly from RMB55.4 million in 2015 to RMB53.2 million in 2016, mainly due to the reduced revenue from our other businesses as we strategically ceased our copper trading business in April 2016, which did not align with our core business. Such decrease was partially offset by an increase in revenue from our independent clinical laboratory services, largely because of the growing market demand for our independent clinical laboratory services and our effective marketing and promotional efforts to strengthen our market position and expand our business operations.

Cost of Sales, Gross Profit and Gross Margin

Our cost of sales increased by 5.1% from RMB664.9 million in 2015 to RMB698.8 million in 2016, corresponding to the increase in revenue.

Our gross profit was RMB1,487.2 million and RMB1,664.3 million in 2015 and 2016, and our gross margin was 69.1% and 70.4%, respectively, during the same period. The slight increase in our gross margin was primarily due to the increased sales of our pharmaceuticals, which has relatively higher profit margins, and a change in our product mix as our pharmaceuticals business segment grew faster relative to our other business segments during the periods.

Pharmaceuticals

Cost of sales of our pharmaceuticals business segment increased by 5.1% from RMB456.7 million in 2015 to RMB479.9 million in 2016, corresponding to the increase in segment revenue, mainly relating to the increased sales of our sodium iodine-131 oral solution and iodine-125 sealed source.

Segment gross profit of our pharmaceuticals business increased from RMB1,316.9 million in 2015 to RMB1,491.2 million in 2016, while segment gross margin increased from 74.3% to 75.7% during the same period, mainly due to our increased sales of UBT kits and analyzers, which have relatively higher gross profit margins.

Radioactive Source Products

Cost of sales of our radioactive source products business segment increased by 2.8% from RMB145.8 million in 2015 to RMB149.9 million in 2016, corresponding to the increase in revenue of such segment, mainly reflecting the increased sales of our cobalt-60 for medical radiotherapy purposes.

Segment gross profit of our radioactive source products business segment increased from RMB129.4 million in 2015 to RMB137.8 million in 2016, while segment gross margin remained relatively stable at 47.0% and 47.9% during the same period.

Irradiation

Cost of sales of our irradiation business segment increased by 7.0% from RMB29.9 million in 2015 to RMB32.0 million in 2016, mainly due to the increased sales scale of our irradiation services.

Segment gross profit of our irradiation business segment increased slightly from RMB18.0 million in 2015 to RMB19.1 million in 2016, while segment gross margin was 37.6% and 37.4%.

Independent Clinical Laboratory Services and Other Businesses

Cost of sales of our independent clinical laboratory services and other businesses segment increased by 13.8% from RMB32.6 million in 2015 to RMB37.1 million in 2016, mainly due to the increased sales scale of our independent clinical laboratory services.

Segment gross profit of our independent clinical laboratory services and other businesses segment decreased from RMB22.8 million in 2015 to RMB16.1 million in 2016, while segment gross margin decreased from 41.2% to 30.3% during the same period, mainly because we ceased our copper trading business in April 2016, which recognized a relatively higher gross margin over the past few years.

Other Income

Our other income increased by 27.8% from RMB20.5 million in 2015 to RMB26.2 million in 2016, mainly due to (i) an increase in our government grants from local government authorities in relation to our commercialized research and development programs and our contributions to the local economy, principally reflecting the subsidies received from government as high and new technology enterprise and for the compensation of expenditure arising from our research and development of radiopharmaceuticals labeled with fluorine-18, (ii) net gain on disposal of property, plant and equipment due to our disposal of certain production facilities and office building in Chengdu, and (iii) an increase in rental income from operating leases, which was generated from renting out certain of our property, plant and equipment.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 15.2% from RMB810.8 million in 2015 to RMB933.9 million in 2016, which mainly reflected (i) an increase in sales service fee resulting from our growing operational scale and the increased number of our distributors and promoters, principally reflecting the continued efforts to reinforce our brand recognition through promotional and marketing activities in response to market competition, (ii) an increase in staff costs resulting from an increase in the number of our sales and marketing employees and our increased salary paid to existing staff and to attract and retain talented employees, (iii) an increase in freight costs associated with our increased sales volume and the change in our transportation methods to control the risks involved in our radioactive product transportation, and (iv) an increase in exhibition expenses, principally relating to the promotional activities involving our UBT kits and analyzers.

As a percentage of revenue, selling and distribution expenses increased from 37.7% in 2015 to 39.5% in 2016, which was mainly due to a relatively faster increase in our distribution expenses compared to the increase in our total revenue, principally attributable to our efforts to expand and strengthen our sales team and increased investment in advertising and promotional activities for our products and services to expand our operation.

Administrative Expenses

Our administrative expenses increased by 10.2% from RMB234.3 million in 2015 to RMB258.3 million in 2016, mainly due to (i) the increased research and development expenses, mainly reflected in our continued research and development efforts relating to our radiopharmaceutical products and commercial production of raw materials cobalt-60 for medical applications, (ii) the increased staff costs resulting from our expanded operational scale and business strategy to recruit and retain talent and (iii) other expenses, mainly reflecting (i) our increased cost of building leased out, primarily because (a) we recognized the utility expenses paid by us on behalf of our lessees as other operating expenses in 2016 in response to the PRC regulatory changes in collecting VAT in lieu of business tax, and (b) we increased the depreciation of certain investment property in Jiangsu province, and (ii) our increased handling charges, principally as a result of our enlarged transaction volume of cobalt-60 settled in foreign currency.

As a percentage of revenue, administrative expenses remained stable at 10.9% in 2015 and in 2016, due to our effective implementation of internal cost control measures.

Finance Costs

Our finance costs increased by 37.1% from RMB10.5 million in 2015 to RMB14.4 million in 2016, which was mainly attributable to the increased interest on borrowings which was attributable to interest incurred on loans borrowed from related parties and a bank to supplement our working capital and finance the operational expansion and project construction of our subsidiaries.

Share of Profits Less Losses of Associates and Share of Profits of A Joint Venture

Our share of profits less losses of associates decreased by 33.1% from RMB17.2 million in 2015 to RMB11.5 million in 2016, mainly due to the decreased profits generated by our associate, Shenzhen CICAM. Our share of profits of a joint venture increased by 4.8% from RMB16.5 million in 2015 to RMB17.3 million in 2016, mainly due to the increased profits generated by our joint venture, Shanghai GMS Pharmaceutical.

Profit before Taxation

As a result of the foregoing, our profit before taxation increased by 5.5% from RMB485.8 million in 2015 to RMB512.7 million in 2016.

Income Tax

Our income tax increased by 3.7% from RMB75.4 million in 2015 to RMB78.2 million in 2016, mainly due to our increased taxable income.

Our effective tax rate remained relatively stable at 15.5% and 15.3% in 2015 and 2016, respectively.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 5.9% from RMB410.4 million in 2015 to RMB434.5 million in 2016.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our liquidity requirements primarily relate to working capital needs, capital expenditures, debt repayment and business acquisitions. Our principal sources of liquidity are cash generated from our operations, bank borrowings and borrowings from CNNC and CNNCFC.

Going forward, we expect these sources to continue to be our principal sources of liquidity. In the future, if our capital expenditures or other long-term commitments increase, or if we need significant financing for business acquisitions, we may decide to incur additional long-term indebtedness, depending on our financial condition at the time, taking into account net proceeds from the Global Offering. We do not anticipate any changes to the availability of financing to fund our operations in the future, although there is no assurance that we will be able to access any financing on favorable terms or at all.

As of December 31, 2015, 2016 and 2017, we had cash and cash equivalents of RMB652.1 million, RMB918.6 million and RMB1,139.2 million, respectively.

The following discussion of liquidity and capital resources principally focuses on our cash flows, working capital and indebtedness.

Cash Flows

The following table sets forth our cash flows for the periods indicated:

	Year ended December 31,		
	2015	**2016**	**2017**
	(RMB in millions)		
Net cash from operating activities	389.5	457.6	429.8
Net cash used in investing activities	(76.0)	(150.4)	(437.5)
Net cash from/(used in) financing activities	(471.0)	(40.8)	228.4
Net increase/(decrease) in cash and cash equivalents	**(157.5)**	**266.4**	**220.7**
Cash and cash equivalents at the beginning of the year/period	809.5	652.1	918.6
Effect of foreign exchange rate changes	0.1	0.1	(0.1)
Cash and cash equivalents at the end of the year/period	**652.1**	**918.6**	**1,139.2**

Net Cash from Operating Activities

Our cash from operating activities consist primarily of payments from our sale of imaging diagnostic and therapeutic radiopharmaceuticals, radioactive source products and provision of EPC services of irradiation facilities and contract irradiation services. Cashflow from operating activities reflects: (i) profit before taxation adjusted for finance costs and non-cash and non-operating items, such as depreciation and amortization, (ii) the effect of movements in working capital, such as increases in trade and bill receivables, trade payables and accruals and other payables, and (iii) other cash items such as income tax paid.

In 2017, we had net cash from operating activities of RMB429.8 million, resulting from our profit before taxation of RMB558.0 million and negative impact on cash flow of changes in working capital. Such movements in working capital primarily reflected (i) an increase in trade and bill receivables of RMB292.4 million, due mainly to the growth of our pharmaceuticals and irradiation businesses, (ii) an increase in prepayments, deposits and other receivables of RMB87.6 million, mainly related to prepayments for costs incurred in connection with the Global Offering and prepayments for purchase of gamma knife therapy devices for on-sell to customers. These cash outflows were partially offset by (i) an increase in accruals and other payables of RMB286.0 million, mainly resulting from payables to distributors and promoters and deposits from promoters associated with our growing UBT kits business, and (ii) an increase in trade payables of RMB78.2 million, mainly resulting from the increased purchases of gamma knife therapy devices for on-sell to customers.

In 2016, we had net cash from operating activities of RMB457.6 million, resulting from our profit before taxation of RMB512.7 million and negative impact on cash flow of changes in working capital. Such movements in working capital primarily reflected (i) an increase in trade and bill receivables of RMB150.1 million, due mainly to our business growth of pharmaceuticals and radioactive source products, and (ii) an increase in inventories of RMB37.7 million, due mainly to the increased stock of cobalt-60 for radioactive source products. These cash outflows were partially offset by (i) an increase in accruals and other payables of RMB146.3 million, mainly due to our increased service fees due to promoters and bonuses due to distributors and promoters as a result of the growth of our pharmaceuticals business, and (ii) a decrease in prepayments, deposits and other receivables of RMB27.6 million, mainly resulting from the repayment of deposits as we strategically ceased our copper trading business to focus on our core business.

In 2015, we had net cash from operating activities of RMB389.5 million, resulting from our profit before taxation of RMB485.8 million and negative impact on cash flow of changes in working capital. Such movements in working capital primarily reflected an increase in trade and bill receivables of RMB130.8 million, due mainly to an increase in sales of our pharmaceuticals business. These cash outflows were partially offset by (i) an increase in accruals and other payables of RMB100.8 million, mainly due to our increased service fees due to promoters and bonuses due to distributors and promoters for our pharmaceuticals business as a result of the continued expansion of such segment as well as our increased dividend payables, and (ii) an increase in trade payables of RMB17.4 million in relation to our pharmaceuticals business segments.

Net Cash from (used in) Investing Activities

Net cash used in investing activities was RMB437.5 million in 2017, which was mainly due to (i) payment of RMB245.6 million for purchase of investment property, property, plant and equipment, lease prepayments and intangible assets, as we purchased equipment and machinery for our expanded operational scale, mainly relating to the construction of our manufacturing and distribution facilities for short half-life radiopharmaceuticals, and (ii) the increase in deposit of RMB375.2 million with banks associated with the proceeds from pre-IPO investment. These cash outflows were partially offset by withdrawal of deposits with banks in the amount of RMB120.0 million as a part of our adjustment to funding source.

Net cash used in investing activities was RMB150.4 million in 2016, which was mainly due to (i) payment of RMB126.0 million for purchase of investment property, property, plant and equipment, lease prepayments and intangible assets, as we purchased equipment and machinery for our expanded operational scale, mainly relating to the construction of our manufacturing and distribution facilities for short half-life radiopharmaceuticals, (ii) payment of RMB40.0 million in connection with the holding of equity investments in CNNC Financial Leasing Company, and (iii) deposit of RMB106.7 million with banks. These cash outflows were partially offset by (i) withdrawal of deposits with banks in the amount of RMB80.3 million upon maturity and (ii) dividend of RMB23.6 million from the distribution from our joint venture, Shanghai GMS Pharmaceutical.

Net cash used in investing activities was RMB76.0 million in 2015, which was mainly due to (i) deposits of RMB276.6 million with banks, and (ii) consideration of RMB186.2 million paid for purchase of investment property, property, plant and equipment, lease prepayments and intangible assets primarily used to purchase land use rights and production facilities to expand our manufacturing capacities associated with imaging diagnostic and therapeutic radiopharmaceuticals and UBT kits and analyzers. These cash outflows were partially offset by (i) withdrawal of deposits with banks in the amount of RMB355.1 million upon maturity and (ii) dividend of RMB12.3 million received from our joint venture, Shanghai GMS Pharmaceutical.

Net Cash from (used in) Financing Activities

Net cash from financing activities was RMB228.4 million in 2017, mainly consisting of proceeds totaling of RMB850.0 million raised from issuance of ordinary shares, partially offset by repayment of RMB480.0 million for bank borrowings.

Net cash used in financing activities was RMB40.8 million in 2016, mainly consisting of payment of RMB451.8 million as dividends to our shareholders and repayment of interest expenses in the amount of RMB9.0 million, partially offset by proceeds of RMB420.0 million raised from borrowings.

Net cash used in financing activities was RMB471.0 million in 2015, mainly consisting of repayment of RMB460.0 million for borrowings, dividends totaling RMB65.9 million paid and interest expenses of RMB5.1 million paid, partially offset by proceeds of RMB60.0 million raised from borrowings.

Working Capital

Our Directors are of the opinion, and the Sole Sponsor concurs after due consideration and discussion with our senior management that, taking into account the estimated net proceeds from the Global Offering and cash flows generated from our operations, we have sufficient working capital for our present requirements, which is for at least the next 12 months from the date of this prospectus.

We may, however, need additional cash resources in the future if we experience changed business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition or other similar action. If we ever determine that our cash requirements exceed our amounts of cash and cash equivalents on hand, we may seek to issue debt or equity securities or obtain credit facilities. Any issuance of equity securities could cause dilution for our shareholders. Any incurrence of indebtedness could increase our debt service obligations and may cause us to be subject to restrictive covenants. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or that financing will not be available at all.

NET CURRENT ASSETS

As of December 31, 2015, 2016 and 2017, we had net current assets of RMB704.1 million, RMB622.3 million and RMB1,543.7 million, respectively. The following table sets forth our current assets, current liabilities and net current assets as of the dates indicated:

	As of December 31,			As of April 30,
	2015	2016	2017	2018
				(unaudited)
	(RMB in millions)			
Current Assets				
Trading securities	0.1	0.2	0.1	0.1
Gross amounts due from customers for contract work	0.0	0.5	—	—
Inventories	188.0	225.7	263.0	314.5
Trade and bill receivables	1,064.7	1,214.9	1,507.2	1,627.2
Prepayments, deposits and other receivables	141.4	126.9	210.7	482.1
Income tax recoverable	2.9	3.4	0.1	—
Cash at bank and on hand	711.2	1,003.2	1,478.8	1,066.5
Total Current Assets	**2,108.3**	**2,574.8**	**3,459.9**	**3,490.4**
Current Liabilities				
Borrowings	—	480.0	—	—
Trade payables	110.2	119.9	198.0	427.1
Accruals and other payables	1,203.4	1,255.0	1,606.5	1,388.4
Gross amounts due to customers for contract work	0.8	3.2	1.8	—
Provisions	54.7	60.0	64.6	65.7
Income tax payable	35.1	34.4	45.3	42.1
Total Current Liabilities	**1,404.2**	**1,952.5**	**1,916.2**	**1,923.3**
Net Current Assets	**704.1**	**622.3**	**1,543.7**	**1,567.1**

Our net current assets increased from RMB622.3 million as of December 31, 2016 to RMB1,543.7 million as of December 31, 2017, primarily due to an increase in our total current assets and a decrease in our total current liabilities simultaneously. The increase in our total current assets was primarily due to (i) an increase in cash at bank and on hand, as a result of the proceeds from pre-IPO investment, and (ii) an increase in trade and bill receivables, mainly attributable to the growth of our sales scale. The decrease in our total current liabilities was primarily due to a decrease in borrowings which was repaid by us in light of sufficient funds for our present needs, which were partially offset by an increase in accruals and other payables, principally reflecting (i) the increase in our deposits from promoters mainly as a result of increased sales scale and the implementation of more stringent risk control measures in relation to our UBT kits business and (ii) the increase in payables to promoters and distributors as a result of increased sales of our UBT kits.

Our net current assets decreased from RMB704.1 million as of December 31, 2015 to RMB622.3 million as of December 31, 2016, primarily due to a relatively faster increase in our total current liabilities compared to the increase in our total current assets. The increase in our total current liabilities was primarily due to (i) an increase in borrowings incurred for working capital and capital expenditure and (ii) an increase in accruals and other payables, due to (a) the increases in our payables to distributors and promoters and deposits due to promoters, mainly as a result of increased sales scale and the implementation of more stringent risk control measures in relation to our UBT kits and analyzers, and (b) our increased receipts in advance from third-party customers, mainly attributable to our increased sales of cobalt-60 source for gamma knife benefited from our relevant leading position and strong domestic market demand for such products. The increase in our total current assets was due primarily to (i) an increase in cash at bank and on hand, as a result of the increases in sales and borrowings, and (ii) an increase in trade and bill receivables, mainly attributable to the growth of our sales scale, which was partially offset by a decrease in prepayments, deposits and other receivables associated with third parties, as we strategically ceased our copper trading business in April 2016 to focus on our core business.

Inventories

As a manufacturer and service provider in the field of isotopes and irradiation technology applications, we need to maintain sufficient inventory levels to successfully operate our pharmaceuticals as well as radioactive source products businesses to meet our customer demand without excess inventory accumulation. Inventory levels in excess of customer demand may result in inventory write-downs, increase our inventory storage costs and adversely affect our liquidity.

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average basis, and comprise all costs of purchase, costs of conversion and other costs incurred for bringing the inventories to their current location and condition. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Write-downs are applied to inventories where events or changes in circumstances indicate that the net realizable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the condition and usefulness of the inventories. In cases where the net realizable value of inventories assessed is less than expected, a recognition of write-down of inventories may arise, which would be recognized in profit or loss in the period in which such recognition takes place.

Our inventories include raw materials, work in progress, finished goods and others. The carrying amounts of inventories, net of write-down of inventories, were RMB188.0 million, RMB225.7 million and RMB263.0 million as of December 31, 2015, 2016 and 2017, respectively. The following table sets forth the components of our inventories as of the dates indicated:

	As of December 31,		
	2015	**2016**	**2017**
	(RMB in millions)		
Raw materials	97.7	112.4	119.5
Work in progress	42.5	61.7	60.6
Finished goods	43.9	40.6	65.5
Others	4.1	11.7	18.0
Less: Write-down	(0.2)	(0.7)	(0.7)
Total	**188.0**	**225.7**	**263.0**

Our inventory of raw materials is primarily used for the manufacturing and sale of our products and rendering of our services, which mainly relates to a variety of raw materials used in our pharmaceuticals business segment for the production of UBT kits, RIA kits and certain other imaging diagnostic and therapeutic radiopharmaceuticals as well as our radioactive source products segment. Work in progress mainly comprises our services in progress and semi-finished products, primarily relating to our cobalt-60 sealed source and UBT kits and analyzers under production. Finished goods represent products ready to be sold by us, primarily including finished UBT kits and analyzers and industrial radioactive source products. Others consist of consumables and supplies, packaging materials and equipment purchased for sale.

The increase in our inventories as of December 31, 2016 from as of December 31, 2015 was mainly due to the increase in our raw materials, work in progress and consumables and supplies, primarily reflecting (i) our increased raw material stock of UBT analyzers and radioactive source products for medical radiotherapy, (ii) the enlarged inventory stock of semi-finished cobalt-60 and (iii) the increase in our goods in transit, mainly pharmaceuticals. The increase in our inventories as of December 31, 2017 from as of December 31, 2016 was mainly due to (i) our increased finished goods, principally relating to our increased sales of UBT kits, and (ii) our increased raw materials, mainly relating to the production of UBT kits.

The following table sets forth a breakdown of our inventory turnover days for the periods indicated:

	Year ended December 31,		
	2015	2016	2017
		(days)	
Inventory turnover days(1)	100.6	108.4	113.3

(1) The calculation of inventory turnover days for any period is based on the average balance of inventory divided by cost of sales for the relevant period and then multiplied by the number of days in the relevant period. Average balance is calculated as the quotient of the sum of the beginning balance and ending balance, and two.

In 2015, 2016 and 2017, our inventory turnover days were 100.6 days, 108.4 days and 113.3 days, respectively. The increase in 2016 was mainly attributable to our increased inventory stock of cobalt-60 source used for irradiation services. The increased inventory turnover days in 2017 mainly reflected the faster growth in the balance of inventory as compared to the growth in cost of sales, largely due to the increase in our inventory of raw materials used for UBT kits and relevant finished goods.

We actively monitor and review our inventory levels on a regular basis to maintain a reasonable level of inventories throughout our production process, while we closely monitor and assess the sales performance of our products and services so that we can adjust our service and product mix and relevant production plans. We prudently increase the purchases of raw materials based on the raw material prices and our estimated production volumes and sales. If we fail to manage our inventories effectively, we may be subject to certain risks with regard to slow-moving or obsolete inventories.

As of April 30, 2018, the latest date for liquidity disclosure, approximately RMB145.4 million, or 55.1%, of our inventories as of December 31, 2017 were subsequently consumed or sold.

Trade and Bill Receivables

Our trade and bill receivables primarily represent the balances due from our customers that are independent third parties and related parties, less allowance for doubtful debts. Our trade and bill receivables are initially recognized at fair value and subsequently measured at amortized costs using the effective interest method less allowance for impairment of doubtful debts. Our management has maintained a strict control over outstanding balances of trade and bill receivables and reviewed overdue amounts regularly.

The following table sets forth a breakdown of our trade and bill receivables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Trade receivable due from third parties	1,117.2	1,259.1	1,536.4
Trade receivable due from related parties under CNNC	13.1	12.1	16.5
Trade receivable due from associates and a joint venture	8.9	28.2	46.2
Bill receivable	15.3	15.8	22.3
Trade and bill receivables	**1,154.5**	**1,315.2**	**1,621.4**
Less: Allowance for doubtful debts	(89.8)	(100.3)	(114.2)
Total	**1,064.7**	**1,214.9**	**1,507.2**

As of December 31, 2015, 2016 and 2017, our carrying amounts of trade and bill receivables, net of allowance for doubtful debts, amounted to RMB1,064.7 million, RMB1,214.9 million and RMB1,507.2 million, respectively. Our trade and bill receivables increased in 2016, primarily reflecting the continued growth of our business relating to sodium iodine-131 oral solution, iodine-125 sealed source, strontium-89 chloride injection and UBT kits, and slower recovery from our key customers. Our trade and bill receivables increased in 2017 mainly due to (i) the continued growth in sales of our UBT kits and (ii) the extended period granted to our customers in light of our increasing price for molybdenum-99/technetium-99m generator.

We normally do not grant fixed credit period to our customers, and may decide to collect our trade and bill receivables on a case-by-case basis, taking various factors into consideration, including the types and location of customers, its historical payments, reputation and creditworthiness, cash flow conditions, the products being sold, as well as our relationship with the relevant customers. During the Track Record Period, our trade and bill receivables generally were recovered within one year.

The following table sets forth an aging analysis of our trade and bill receivables, net of allowance for doubtful debts, based on invoice date at the end of each reporting period:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Within one year	959.3	1,085.7	1,352.6
One to two years	84.9	91.5	118.2
Two to three years	10.4	32.0	22.5
Over three years	10.1	5.7	13.9
Total	**1,064.7**	**1,214.9**	**1,507.2**

We conduct an evaluation of collectability and aging analysis of the receivables, which requires the use of our judgment and estimates to assess the period for indicators of impairment, and our regular assessment process is generally carried out at the end of each reporting period to determine whether there is objective evidence of impairment. We closely review the trade and bill receivables balances and any overdue balances on an ongoing basis and assesses the collectability of overdue balances. After fully considering the nature of trade and bill receivables and their collectability on a case-by-case basis, we have made provision for the impairment of certain long overdue trade and bill receivables in order to ensure the quality of our assets. We provide allowance for trade and bill receivables whenever there is any objective evidence that the balances may not be collectible, such as significant financial difficulty of counterparty. We believe that we have made sufficient provision for the unsettled trade receivables based on our assessment and impairment provision policy, and no additional provision is necessary for the Track Record Period. See note 2 to our consolidated financial statements included in "Appendix I — Accountants' Report" for details of our impairment provision policy.

As of December 31, 2015, 2016 and 2017, we recognized allowance for doubtful debts of trade and bill receivables of RMB89.8 million, RMB100.3 million and RMB114.2 million, representing 8.4%, 8.3% and 7.6% of total trade and bill receivables, net of allowance for doubtful debts, respectively. We did not hold any collateral or other security over such amount for which we have made provisions. Allowance for doubtful debts of trade and bill receivables increased during the Track Record Period mainly as a result of the changes in our accounting estimates when recognizing impairment of trade and bill receivables and our business growth. In 2015, 2016 and 2017, RMB1.5 million, RMB0.9 million and RMB0.6 million, respectively, of trade and bill receivables were written off, as these amounts were determined to be uncollectible.

The aging analysis of the past-due trade and bill receivables that are not individually or collectively considered to be impaired is as follows:

	As of December 31,		
	2015	**2016**	**2017**
	(RMB in millions)		
Within one year	891.0	1,019.1	1,255.7
One to two years	83.3	91.5	124.3
Two to three years	10.3	32.0	22.3
More than three years	8.7	5.7	6.2
Total	**993.3**	**1,148.3**	**1,408.4**

Of our total trade and bill receivables, we had carrying amounts of RMB993.3 million, RMB1,148.3 million and RMB1,408.4 million as of December 31, 2015, 2016 and 2017, respectively, which are past due but are regarded as not impaired, as we consider the trade and bill receivables under most circumstances as past due once the relevant transaction incurred, and also because there has not been a significant change in the credit standing of the debtors and the balances are still considered fully recoverable, though we do not hold any collateral over these receivables. In determining the recoverability of a receivable, we consider whether there has been any adverse change in the credit standing of the debtors from the date credit was initially granted. Since the concentration of credit risk is limited as our overdue customer mainly comprises our selected key customers with a good track record, we believe that no further credit provision is required in excess of the allowance for doubtful debts already provided for in our financial statements. In addition, we control the credit risk through our sales model. For example, we sell UBT kits directly to the customers through the production and marketing effort of promoters, with whom we usually enter into standard service agreements requiring a fixed amount of deposits per kit before our delivery of products to relevant customers. Such deposits will be refunded when we receive the payment from customers in full. In 2015, 2016 and 2017, our deposits from promoters amounted to RMB239.3 million, RMB296.0 million and RMB391.3 million, which accounted for 24.2%, 25.8% and 27.8%, respectively, of the past-due trade and bill receivables which were not individually considered to be impaired in the same periods.

The following table sets forth a breakdown of our trade and bill receivables turnover days for the periods indicated:

	Year ended December 31,		
	2015	**2016**	**2017**
		(days)	
Trade and bill receivables turnover days[(1)]	169.5	176.5	185.9

(1) The calculation of trade receivables turnover days for any period is based on the average balance of trade and bill receivables divided by revenue for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the quotient of the sum of the beginning balance and ending balance, and two.

In 2015, 2016 and 2017, our trade and bill receivables turnover days were 169.5 days, 176.5 days and 185.9 days, respectively. Trade and bill receivables turnover days increased during these periods, which was mainly due to (i) the increase in the receivables turnover days in our pharmaceuticals, the revenue of which increased during the periods, while we had relatively slower recovery from our key customers with a good credit record, and (ii) our increased receivables associated with expanding sales scale of UBT kits as well as imaging diagnostic and therapeutic radiopharmaceuticals, particularly molybdenum-99/technetium-99m generator, in the first half of 2017.

As of April 30, 2018, RMB565.5 million, or 37.5%, of our trade and bill receivables as of December 31, 2017 have been subsequently settled.

Prepayments, Deposits and Other Receivables

Our prepayments, deposits and other receivables consisted primarily of (i) our prepayments for purchase of inventories from related parties and third party suppliers, (ii) rental deposit and deposits made to obtain land use right and/or for bidding, (iii) amount due from relevant parties, which mainly represents receivables from disposal of plants and property; (iv) other receivables, which primarily consist of prepayments for rentals, services and custom duties; (v) staff advance, which mainly represents advances to employees for travel and business; (vi) deductible input VAT and (vii) prepayments for costs incurred in connection with the Global Offering.

The following table sets forth a breakdown of our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Prepayments for purchase of inventories	76.7	53.1	106.6
Receivable from purchase of Property Plant and equipment	4.3	17.4	17.4
Other non-trade due amount	2.0	6.3	3.7
Deposits	30.0	18.8	26.9
Deductible input VAT	6.7	12.5	23.6
Staff advance	8.3	5.9	5.1
Prepayments for costs incurred in connection with the Global Offering	—	2.6	16.0
Others	13.3	10.3	11.5
Total	**141.4**	**126.9**	**210.7**

The decrease from RMB141.4 million as of December 31, 2015 to RMB126.9 million as of December 31, 2016 primarily resulted from the decreases in (i) prepayment for purchase of inventories, mainly associated with the repayment of our prepayment for copper trading from third parties, and (ii) deposits and advances, as we were repaid certain amounts of deposits in relation to purchase of land by public auction for the construction of an irradiation station in Sichuan province, which was partially offset by an increase in receivables associated with related parties from disposal of plants, mainly relating to our production facility in Sichuan province and office building in Beijing. The increase from RMB126.9 million as of December 31, 2016 to RMB210.7 million as of December 31, 2017 primarily resulted from the increases in (i) prepayments for purchase of gamma knife therapy devices for on-sell to customers, (ii) deposits paid to customs for the use of our overseas customer's radioactive source containers in connection with our export sales of cobalt-60 sealed source for industrial use to such customer, (iii) deductible input VAT associated with our purchase of equipments for manufacturing and distribution facilities for technetium-99m labeled injections and fluorine-18-FDG injections, and (iv) prepayments for costs incurred in connection with the Global Offering.

Trade and Other Payables

Our trade and other payables mainly consist of trade payables and accruals and other payables, which include receipts in advance, other taxes payables, deposits from promoters, payables to distributors and promoters, payables for staff-related costs, dividends payables and other accruals and payables.

The following table sets forth a breakdown of our trade and other payables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Trade payables	110.2	119.9	198.0
Accruals and other payables	1,203.4	1,255.0	1,606.5
Total	**1,313.6**	**1,374.9**	**1,804.5**

As of December 31, 2015, 2016 and 2017, our carrying amounts of trade and other payables amounted to RMB1,313.6 million, RMB1,374.9 million and RMB1,804.5 million, respectively. Our trade and other payables increased in 2016, primarily reflecting (i) the increase in trade payables, which resulted from our increased procurement of raw materials used by molybdenum-99/technetium-99m generator, sodium iodine-131 oral solutions and iodine-125 sealed source and the extended term granted to us by the suppliers in relation to our procurement of cobalt-60 for irradiation services, (ii) the increase in receipts in advance from third-party customers, principally attributable to the strong market demand for our cobalt-60 sealed source for gamma knife, which benefited from our leading position in China, and (iii) the increases in our unsecured and interest-free deposits due to promoters for ordering goods, which will be repaid after delivery of goods, and payables to distributors and promoters, largely resulting from our increased sales scale, effective implementation of more stringent risk control measures and enhanced bargaining power in relation to the sales of our UBT kits and analyzers. The increase in 2017 was mainly attributable to (i) the increase in trade payables, mainly because of the increased purchases of gamma knife therapy devices for on-sell to customers and our increased procurement of raw materials used by carbon-13 capsule UBT kits, (ii) the increase in deposits from promoters, resulting principally from our increased sales of UBT kits, and (iii) the increase in payables to promoters and distributors, mainly relating to our increased sales of UBT kits.

During the Track Record Period and up to the Latest Practicable Date, we did not have any material default on any trade and other payables.

Trade Payables

Our trade payables are repayable within the normal operating cycle or on demand, mainly incurred in our pharmaceuticals business for the purchase of raw materials used by industrial cobalt-60 sources, molybdenum-99/technetium-99m generator, sodium iodine-131 oral solutions and iodine-125 sealed sources.

The following table sets forth a breakdown of our trade payables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Trade payable due to			
— third parties	55.6	69.6	137.3
— related parties under CNNC	48.5	43.1	53.2
— associates and a joint venture	6.1	7.2	7.6
Total	**110.2**	**119.9**	**198.0**

As of December 31, 2015, 2016 and 2017, we had in aggregate trade payables of RMB110.2 million, RMB119.9 million and RMB198.0 million, respectively. The increases in our trade payables in 2016 were primarily due to (i) the increased payables relating to our procurement and processing of molybdenum-99/technetium-99m generator, sodium iodine-131 oral solutions and iodine-125 sealed sources and (ii) the extended credit period granted to us by the suppliers associated with the procurement of cobalt-60 for irradiation services. The increase in 2017 was mainly due to the increased purchases of gamma knife therapy devices for on-sell to customers and our increased procurement of raw materials for carbon-13 capsule UBT kits.

The table below sets forth an aging analysis of trade payables based on invoice date at the end of each reporting period indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Within one year	110.2	119.9	175.6
One to two years	—	—	22.4
Total	**110.2**	**119.9**	**198.0**

The following table sets forth a breakdown of our trade payables turnover days for the periods indicated:

	Year ended December 31,		
	2015	2016	2017
		(days)	
Trade payables turnover days[1]	55.7	60.2	73.7

(1) The calculation of trade payables turnover days for any period is based on the average balance of trade payables divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the quotient of the sum of the beginning balance and ending balance, and two.

Our trade payables turnover days increased from 55.7 days in 2015 to 60.2 days in 2016, which was mainly due to (i) decreased costs incurred for cobalt-60 sources, mainly as a result of the downturn in overall radioactive source market and the decreased supply of medical cobalt-60 sources in China, and (ii) the extended credit period granted to us by our suppliers in response to the relatively slower market growth in China. Our trade payables turnover days increased further to 73.7 days in 2017, mainly attributable to (i) the increased trade payables in relation to the purchases of gamma knife therapy devices for on-sell to customers and our increased procurement of raw materials for carbon-13 capsule UBT kits and (ii) the extended credit period granted to us by our suppliers with long-term cooperative relationships.

As of April 30, 2018, RMB104.9 million, or 53.0%, of our trade payables as of December 31, 2017, have been subsequently settled.

Accruals and Other Payables

Our accruals and other payables primarily consist of payables to distributors and promoters, deposits from promoters, payables for staff-related costs, receipts in advance, other taxes payables, dividends payables and other accruals and payables.

The following table sets forth a breakdown of our accruals and other payables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Payables to distributors and promoters	443.1	529.5	708.2
Deposits from promoters	239.3	296.0	391.3
Payables for staff-related costs	162.8	137.1	120.6
Receipts in advance	45.5	80.8	89.0
Other taxes payables	30.0	40.8	51.0
Dividends payables	173.1	42.1	100.6
Other accruals and payables	109.6	128.7	145.8
Total	**1,203.4**	**1,255.0**	**1,606.5**

- *Payables to Distributors and Promoters*

Our payables to distributors and promoters represent service fees due to promoters and bonuses due to distributors and promoters, primarily relating to the sales of our iodine-125 sealed source, strontium-89 chloride injection and UBT kits and analyzers. Our payables to distributors and promoters increased significantly from RMB443.1 million as of December 31, 2015 to RMB529.5 million as of December 31, 2016, and further to RMB708.2 million as of December 31, 2017, primarily due to the increased sales scale of our UBT kits.

- *Deposits from Promoters*

Our deposits due to promoters primarily consist of unsecured and interest-free deposits paid by our promoters for ordering goods, which will be repaid after delivery of goods, primarily in relation to the sales of our UBT kits. As of December 31, 2015, 2016 and 2017, our deposits due to promoters amounted to RMB239.3 million, RMB296.0 million and RMB391.3 million, respectively. The general increase in our deposits due to promoters was primarily due to our increased sales scale, effective implementation of stricter risk control measures and enhanced bargaining power in relation to the sales of our UBT kits.

- *Payables for Staff-related Costs*

Our payables for staff-related costs primarily consist of employee salary, insurance and other benefit payables. Our payables for staff-related costs increased from RMB162.8 million as of December 31, 2015 to RMB137.1 million as of December 31, 2016 as we deferred the payment of certain amount of recognized salaries in accordance with performance assessment, and then decreased to RMB120.6 million as of December 31, 2017, primarily due to our actual payment of such salary payables in accordance with performance assessment.

- *Receipts in Advance*

Our receipts in advance primarily consist of prepayments received from our customers relating to the sales of our goods and services in the pharmaceuticals and radioactive source products business segments. Our receipts in advance decreased from RMB45.5 million as of December 31, 2015 to RMB80.8 million as of December 31, 2016, which was primarily due to the decreased sales of our industrial radioactive source products, while the increase from RMB80.8 million as of December 31, 2016 to RMB89.0 million as of December 31, 2017 was primarily a result of our expanded operational scale with regard to our pharmaceuticals and radioactive source products business segments, mainly including receipts in advance from the customers for our cobalt-60 radioactive source for industrial use and iodine-125 sealed sources.

- *Other Taxes Payables*

Our other taxes payables primarily relate to our taxes payables except for income tax payables, mainly VAT payables. As of December 31, 2015, 2016 and 2017, our other taxes payables amounted to RMB30.0 million, RMB40.8 million and RMB51.0 million, respectively. The general increase during these periods in our other taxes payables was primarily due to our growing business scales.

- *Other Accruals and Payables*

Our other accruals and payables mainly consist of payables relating to project construction, procurement of fixed assets and other accruals. As of December 31, 2015, 2016 and 2017, our other accruals and payables amounted to RMB109.6 million, RMB128.7 million and RMB145.8 million, respectively. Our other accruals and payables increased during the Track Record Period as we strategically focused on the construction of the 26 manufacturing and distribution facilities to produce and sell technetium-99m labeled injections and fluorine-18-FDG injections to meet the increasing market demand in China, which led to both increased construction expenses and increased procurement costs of facilities used by such manufacturing and distribution facilities.

Balances with Related Parties

We enter into transactions with our related parties from time to time. It is the view of our Directors that each of the related party transactions set out in note 34 to the Accountants' Report in Appendix I to this prospectus were conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between us and the relevant related parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results unreflective of our future performance.

As of December 31, 2015, 2016 and 2017, our balances with related parties were RMB208.4 million, RMB98.3 million and RMB543.5 million, respectively. The following table sets forth the components of our balances with related parties as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Trade and bill receivables	22.0	40.3	62.7
Prepayments, deposits and other receivables	12.2	32.2	29.2
cash and cash equivalent and time deposits	307.2	556.3	545.3
Short-term loan	—	(460.0)	—
Long-term loan	(60.0)	—	—
Trade payables	(54.6)	(50.2)	(60.8)
Accruals and other payables	(18.4)	(20.3)	(32.9)
Total	**208.4**	**98.3**	**543.5**

In particular, we had borrowings from related parties of RMB60.0 million, RMB460.0 million and nil as of December 31, 2015, 2016 and 2017, respectively. The interest rates which we paid on related party borrowings were generally in line with the prevailing market rates. See "Connected Transactions — Non-exempt Continuing Connected Transactions" for further details.

As of December 31, 2017, we had fully repaid all our loans due to related parties.

After the Global Offering, we expect substantially all of our related party transactions to continue, including financing from CNNCFC based on the framework agreements. See also "Connected Transactions" for our connected transactions under Chapter 14A of the Listing Rules.

Provisions for Reclamation Obligation

Our reclamation obligation primarily represents the accrual for reclamation costs in relation to our tentative reclamation obligation on the disposal of returned radioactive sources and radioactive production and storage facilities imposed by the relevant PRC rules and regulations. The provision is determined based upon our best estimates of the associated costs which may be subject to change in the near term when the reclamation obligation becomes apparent in the future.

In compliance with the relevant PRC rules and regulations, we recognize provisions to cover such obligation related to the returned radioactive sources and our radioactive production and storage facilities and operations. The following table sets forth our provisions as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Reclamation obligations	145.5	156.7	167.1

See "Appendix I — Accountants' Report — Significant Accounting Policies" and note 29 to the Accountants' Report in Appendix I to this prospectus for further details.

INDEBTEDNESS

As of April 30, 2018, the latest date to determine our indebtedness, our total indebtedness was RMB150.0 million.

The following table sets forth the components of our indebtedness as of the dates indicated:

	As of December 31,			As of April 30,
	2015	2016	2017	2018
				(unaudited)
	(RMB in millions)			
Current liabilities				
Short-term borrowings–unsecured	—	480.0	—	—
Non-current liabilities				
Long-term borrowings	60.0	—	150.0	150.0
Total borrowings	**60.0**	**480.0**	**150.0**	**150.0**

Our short-term borrowings were incurred primarily for the purposes of financing our working capital. The increase in 2016 was primarily due to our increased working capital demand for the purpose of business expansion. The decrease to nil in 2017 was mainly due to our repayment of such amount.

Our long-term borrowings were incurred for our acquisition of Suzhou Radiation and the construction of new irradiation facilities in Jilin and Sichuan province. Our long-term borrowings decreased to nil as of December 31, 2016, mainly reflecting our reclassification of such amount of long-term borrowings as short-term borrowings according to the maturity profile.

As of December 31, 2015, 2016, 2017, the balance of borrowings from CNNCFC amounted to nil, RMB400.0 million and nil. We paid the borrowings from CNNCFC in full as of December 31, 2017. In 2017, Headway, our subsidiary, has signed a five-year loan agreement with China Development Bank, which was jointly guaranteed by its shareholders with an aggregate amount of RMB200.0 million bearing an interest rate of 5.0% above the PBOC one-to-five-year benchmark lending rate per annum on the first draw-down date. Headway also pledged it's land use right of a parcel of land and bank deposit of RMB18.0 million with respect to such bank loan. Our long-term borrowings amounted to RMB150.0 million as of December 31, 2017 upon receipt under such bank loan. As of April 30, 2018, except the bank loan with China Development Bank disclosed herein, we did not have any other banking facilities or bank loans.

The table below sets forth the maturity profile of our borrowings as of the dates indicated below:

	As of December 31,			As of April 30,
	2015	2016	2017	2018
				(unaudited)
	(RMB in millions)			
Within one year	—	480.0	—	—
After one year but within two years	60.0	—	—	—
After two year but within five years	—	—	150.0	150.0
Wholly repayable within two years	**60.0**	**480.0**	**150.0**	**150.0**

As of December 31, 2016, all of our borrowings were due within one year. As of December 31, 2017 and April 30, 2018, our bank borrowings with an amount of RMB150.0 million were all due after two years but within five years. During the Track Record Period and up to the Latest Practicable Date, we did not have any material default on our borrowings.

As of April 30, 2018, we had unutilized bank facility of RMB50.0 million under the bank loan borrowed by Headway from China Development Bank. Our Directors have confirmed that there has not been any material increase in our indebtedness since April 30, 2018 to the date of this prospectus. As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to obtain future financing, nor was there any material default on our indebtedness or breach of covenant during the Track Record Period and up to the Latest Practicable Date. As of the Latest Practicable Date, we did not have any definitive plan to issue debts.

Apart from the foregoing, we did not have, as of April 30, 2018, the latest date for liquidity disclosure, any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments, any guarantees or other material contingent liabilities.

CAPITAL EXPENDITURES

Our capital expenditures comprise mainly additions to prepaid lease payments, investment properties, property, plant and equipment and intangible assets. In 2015, 2016 and 2017, our capital expenditures were RMB218.3 million, RMB175.9 million and RMB251.2 million, respectively. We fund these expenditures primarily using cash generated from our operating activities and proceeds from bank borrowings and borrowings from CNNCFC.

Our capital expenditures primarily related to our pharmaceuticals and irradiation businesses, which were mainly incurred for the expansion and upgrade of our manufacturing facilities, including purchasing land use rights for sites, constructing facilities and purchasing equipment, development of our imaging diagnosis and therapeutic radiopharmaceuticals and UBT kits and analyzers, as well as constructing irradiation facilities. Capital expenditures incurred by our other segment were mainly used for the purchase of equipment and machinery at our production facilities in China.

We expect to incur capital expenditures of approximately RMB1,182.3 million and RMB632.3 million in 2018 and 2019, respectively. These expected capital expenditures are primarily for the maintenance of our existing facilities or our continued expansion and upgrade plan to increase our production capabilities in anticipation of the expected increase in demand for our current products and the launch of our new product. See "Future Plans and Use of Proceeds" in this prospectus for further details. We expect to finance our capital expenditures through a combination of internally generated funds, the net proceeds from the Global Offering and borrowings. We may adjust our capital expenditures for any given period according to our development plans or in light of market conditions and other factors we believe to be appropriate.

CONTRACTUAL AND OTHER OBLIGATIONS

Capital Commitments

The table below sets forth our capital commitments as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Contracted for	221.8	187.1	106.2
Authorized but not contracted for	205.7	60.0	76.9
Total	**427.5**	**247.1**	**183.1**

We have funded and will continue to fund a substantial portion of our capital commitments by operating cashflow and proceeds from banks borrowings. During the Track Record Period and as of April 30, 2018, our capital commitments were mainly attributable to our construction of two new and modern manufacturing and research and development bases in Hebei and Sichuan provinces for standardized and large-scale production of imaging diagnostic and therapeutic radiopharmaceuticals, the construction of production base in Shenzhen for UBT kits and analyzers the relocation of our clinical medical testing and laboratory services facility to a new site in Beijing and purchase of property, plant and equipment.

Operating Lease Commitments

We lease some of our office properties from third parties under non-cancellable leases. The following table sets forth our future minimum lease payments under non-cancellable operating leases as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in millions)		
Within one year	3.6	3.9	10.1
After one year but within five years	16.2	16.5	23.8
After five years.	8.4	4.2	—
Total	**28.2**	**24.6**	**33.9**

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2017 and the Latest Practicable Date, we did not have any material off-balance sheet arrangements.

CONTINGENT LIABILITIES

We are from time to time involved in legal proceedings and litigation in the ordinary course of business. We believe that they are insignificant to us and have not made any material provision in our consolidated financial information in respect thereof.

As of April 30, 2018, being the latest practicable date to determine our indebtedness, and the Latest Practicable Date, we did not have any material contingent liabilities.

FINANCIAL RATIOS

The table below sets forth, as of the dates or for the periods indicated, certain financial ratios:

	As of or for the year ended December 31,		
	2015	2016	2017
Current ratio (times)(1)	1.5	1.3	1.8
Quick ratio (times)(2)	1.4	1.2	1.7
Gearing ratio(3)	4.4%	32.6%	6.1%
Return on assets(4)	14.1%	13.3%	11.5%
Return on equity(5)	32.5%	30.7%	24.3%
Gross margin(6)	69.1%	70.4%	70.5%
Net profit margin(7)	19.1%	18.4%	17.8%

(1) Current ratio equals total current assets divided by total current liabilities as of the same date.
(2) Quick ratio equals total current assets excluding inventories divided by total current liabilities as of the same date.
(3) Gearing ratio equals total interest-bearing debts divided by total equity as of the same date.
(4) Return on assets equals profit for a period divided by the average balance of total assets at the beginning and the end of such period.
(5) Return on equity represents profit for a period divided by the average balance of total equity at the beginning and the end of such period.
(6) Gross margin equals gross profit divided by revenue for the period.
(7) Net profit margin equals profit for the period divided by revenue for the period.

Current Ratio

Our current ratio decreased from 1.5 times as of December 31, 2015, but then decreased to 1.3 times as of December 31, 2016, which increased to 1.8 times as of December 31, 2017. The fluctuations of our current ratio during the Track Record Period were in line with our outstanding balance of short-term borrowings, all of which had been repaid in February 2017.

Quick Ratio

Our quick ratio was 1.4 times, 1.2 times and 1.7 times as of December 31, 2015, 2016 and 2017, respectively. The fluctuations of our quick ratio during the Track Record Period were in line with our outstanding balance of short-term borrowings, all of which had been repaid in February 2017.

Gearing Ratio

Our gearing ratio was 4.4%, 32.6% and 6.1% as of December 31, 2015, 2016 and 2017, respectively. The fluctuations of our gearing ratio during the Track Record Period were in line with our outstanding balance of short-term borrowings, all of which had been repaid in February 2017.

Return on Assets

We achieved a return on assets of 14.1%, 13.3% and 11.5% in 2015, 2016 and 2017, respectively. The decreases in our return on assets in 2016 and 2017 was mainly due to the relatively faster growth of our current assets, principally cash at bank and on hand and trade and bill receivables, compared to our profit growth during the year.

Return on Equity

We achieved a return on equity of 32.5%, 30.7% and 24.3% in 2015, 2016 and 2017, respectively. Our return on equity decreased in 2016 was mainly due to the increases in retained earnings. Our return on equity decreased to 24.3% in 2017 was mainly due to the contributions from pre-IPO investment.

Gross Margin

Our gross margin was 69.1%, 70.4% and 70.5% for 2015, 2016 and 2017, respectively. The general increase in our gross margin was primarily due to the increased sales of our pharmaceuticals, which has relatively higher profit margins.

Net Profit Margin

Our net profit margin remained relatively stable being 19.1%, 18.4% and 17.8% for 2015, 2016 and 2017, respectively.

FINANCIAL RISKS

We are exposed to various types of financial risk in the ordinary course of business, including credit risk, liquidity risk and interest rate risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. See note 32 to "Appendix I — Accountants' Report" for further details.

Credit Risk

As of December 31, 2015, 2016 and 2017, our maximum exposure to credit risk is primarily attributable to our trade and bill receivables.

In order to minimize the credit risk, we have policies in place to monitor the exposures to these credit risks on an ongoing basis. Before accepting any new customer requiring credit over a certain amount, we carry out research into their creditability and assess their credit quality and define credit limits for that customer. Our individual credit evaluations focus on the customer's historical payment records, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

We normally do not require collateral from customers. Therefore, our exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customer operates. The significant concentrations of credit risk will primarily arise when we have significant exposure to individual customers. We will, however, perform periodic credit evaluations on our customers and monitor the utilization of credit terms by them, while we believe we do not have any significant concentration of credit risk as the trade and bill receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Liquidity Risk

Our policy is to regularly monitor current and expected liquidity requirements to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet the liquidity requirements in the short- and long-term. Our Directors believe that there is no significant liquidity risk, as we have sufficient monetary capital to fund our operations.

Interest Rate Risk

Our exposure to the risk of changes in market interest rates arises primarily from our borrowings issued at variable rates. Increases in interest rates would increase interest expenses relating to the borrowings issued at such interest rate and increase the cost of new debt. We regularly review and monitor the mix of fixed and variable rate borrowings in order to manage the portfolio's interest rate risks. In the opinion of our Directors, we have no significant interest rate risk and have not used any interest rate swaps to hedge our exposure to interest rate risk.

DIVIDEND POLICY

After the completion of the Global Offering, we may distribute dividends in the form of cash or by other means that we consider appropriate. The payment of any dividend by us must be approved by our Shareholders in a Shareholders' meeting. While our Board intends to recommend the declaration of cash dividends to Shareholders in a general meeting, the decision to make a recommendation for the payment of any dividend and the amount of the dividend will depend on, among other things:

- our results of operations and cashflow;
- our financial position;
- general business conditions;
- our future prospects;
- statutory, regulatory and contractual restrictions on the payment of dividends by us; and
- other factors that our Board deems relevant.

Our Board will propose dividends, if any, in Renminbi with respect to the Shares on a per Share basis for Shareholders' approval. We will pay such dividends in Renminbi. Under our Articles of Association, all of our Shareholders have equal rights to dividends and distributions. Holders of the Shares will share proportionately on a per-share basis in all dividends and other distributions.

In accordance with applicable requirements of the PRC laws and our Articles of Association, we may only distribute dividends after we have made an allowance for:

- recovery of losses, if any;
- allocations to the statutory reserve of not less than 10% of our profit after tax;
- allocation to a discretionary revenue fund if approved by our Shareholders and after allocation is made to the statutory reserve fund; and
- payment of dividends.

The allocations to the statutory funds are currently 10% of our net profit, determined in accordance with PRC GAAP. After completion of the Global Offering, dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRS, whichever is lower. Any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years.

During the Track Record Period, we declared cash dividends of RMB172.1 million, RMB186.3 million and RMB175.2 million to our shareholders, respectively, and as of December 31, 2015, 2016 and 2017, we paid cash dividends of nil, RMB319.0 million and RMB177.5 million to our shareholders, respectively. On March 30, 2018, we declared cash dividends of RMB66.5 million to our shareholders. However, our historical dividends may not be indicative of future dividend payments.

DISTRIBUTABLE RESERVES

As of December 31, 2017, we had RMB654.7 million in retained profits, as determined under IFRS, available for distribution.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group prepared in accordance with paragraph 4.29 of the Hong Kong Listing Rules is set out below for illustrative purposes only, to illustrate the effect of the Global Offering on our consolidated net tangible assets attributable to equity shareholders of our Company as of December 31, 2017 as if the Global Offering had taken place on December 31, 2017.

The unaudited pro forma statement of adjusted consolidated net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of our consolidated net tangible assets attributable to equity shareholders of our Company as of December 31, 2017 or any future date following the Global Offering. It is prepared based on the consolidated net tangible assets of our Group attributable to equity shareholders of our Company as of December 31, 2017, derived from the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as below. The unaudited pro forma statement of adjusted consolidated net tangible assets does not form part of the Accountants' Report as set forth in Appendix I to this prospectus.

	Consolidated Net Tangible Assets of Our Group Attributable to Equity Shareholders of the Company as of December 31, 2017[(1)]	Estimated Net Proceeds from the Global Offering[(2)]	Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets of Our Group Attributable to Equity Shareholders of the Company	Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets of Our Group Attributable to Equity Shareholders of the Company Per Share[(3)(4)]
	(RMB in millions)			
Based on an Offer Price of HK$17.80 per Share	1,837.7	1,107.6	2,945.2	9.21
Based on an Offer Price of HK$24.20 per Share	1,837.7	1,524.9	3,362.5	10.51

(1) The consolidated net tangible assets attributable to equity shareholders of our Company as of December 31, 2017 is compiled based on the consolidated statements of financial position included in the Accountants' Report set out in Appendix I to this Prospectus, which is based on the consolidated total equity attributable to equity shareholders of our Company as of December 31, 2017 of RMB1,868,944,000 after deducting goodwill of RMB5,670,000 and intangible assets of RMB32,176,000, and adjusting the share of intangible assets attributable to non-controlling interests of RMB6,552,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK$17.80 and HK$24.20 per Offer Share, after deduction of the underwriting fees and other related expenses payable by our Company, and 79,968,700 shares expected to be issued under the Global Offering, assuming the over-allotment option is not exercised. The estimated net proceeds from the Global Offering have been converted to Renminbi at the PBOC rate of HK$1.0000 to RMB0.8359 prevailing on December 31, 2017.

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company per Offer Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis of 319,874,800 Shares in total, taking into account that 239,906,100 Shares is issue as of December 31, 2017 and 79,968,700 Shares to be issued pursuant to the Global Offering and the respective offer prices of HK$17.80 and HK$24.20 per Offer Share, but do not take into account any Shares which may be issued upon the exercise of the Over-allotment Option.

(4) The unaudited pro forma adjusted net tangible assets attributable to equity shareholders of our Company per Offer Share amounts in RMB are converted to Hong Kong dollar with the PBOC rate of RMB0.8359 to HK$1.0000 prevailing on December 31, 2017.

NO MATERIAL ADVERSE CHANGE

The Directors have confirmed that there has been no material adverse change in our financial and trading position or prospects since December 31, 2017, being the date to which our latest audited consolidated financial statements have been prepared, to the date of this prospectus.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

We confirm that, as of the Latest Practicable Date, we are not aware of any circumstances that would give rise to a disclosure under Rules 13.13 to 13.19 of Chapter 13 of the Hong Kong Listing Rules.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Global Offering. We estimate that our listing expenses will be approximately RMB87.6 million (assuming an Offer Price of HK$21.0 per Offer Share, being the mid-point of the stated Offer Price range, and assuming the Over-allotment Option is not exercised). During the Track Record Period, RMB1.9 million have been recognized in our consolidated statements of profit or loss. Of the remaining RMB85.7 million, approximately RMB8.6 million will be recognized in our consolidated statements of profit or loss in 2018 and approximately RMB77.1 million will be capitalized. Our Directors do not expect such expenses to materially impact our results of operations in 2018.